99TH CONGRESS
1st Session

SENATE

REPORT
99-20

SMALL BUSINESS ADMINISTRATION PROGRAM AUTHORIZATIONS FOR FISCAL YEARS 1986, 1987, AND 1988

REPORT

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

TO ACCOMPANY

S. 408

TO AMEND THE SMALL BUSINESS ACT TO PROVIDE PROGRAM LEVELS, SALARY AND EXPENSE LEVELS, AND AUTHORIZATIONS FOR THE SMALL BUSINESS ADMINISTRATION'S PROGRAMS FOR FISCAL YEARS 1986, 1987, AND 1988

together with

MINORITY VIEWS

MARCH 28 (legislative day, FEBRUARY 18), 1985.—Ordered to be printed

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Calendar No. 47

99TH CONGRESS *1st Session* | SENATE | REPORT 99-20

AMENDING THE SMALL BUSINESS ACT TO PROVIDE PROGRAM LEVELS, SALARY AND EXPENSE LEVELS, AND AUTHORIZATIONS FOR THE SMALL BUSINESS ADMINISTRATION'S PROGRAM FOR FISCAL YEARS 1986, 1987, AND 1988, AND FOR OTHER PURPOSES

MARCH 29, 1985.—Ordered to be printed

Filed under authority of the order of the Senate on MARCH 28 (legislative day, FEBRUARY 18), 1985

Mr. WEICKER, from the Committee on Small Business, submitted the following

REPORT

together with

MINORITY VIEWS

[To accompany S. 408]

The Committee on Small Business, to which was referred the bill (S. 408), to amend the Small Business Act to provide program levels, salary and expense levels, and authorizations for the Small Business Administration's programs for fiscal years 1986, 1987, and 1988, and for other purposes, having considered the same, reports favorably thereon, with amendments, and recommends that the bill, as amended, do pass.

I. COMMITTEE CONSIDERATION

S. 408, a bill to provide program levels, salary and expense levels and authorizing funds for the Small Business Administration's (SBA's) programs for fiscal years 1986-88 was introduced on February 6, 1985 by Senators Weicker, Bumpers, D'Amato, Nunn, Rudman, Sasser, Kasten, Dixon, and Pressler. This bill was referred to this Committee. Since that time Senators Goldwater, Boren, Baucus, Levin, Hollings, Simon, Pell, DeConcini, Dodd, Sarbanes, Inouye and Riegle have joined as co-sponsors of the bill.

S. 408 preserves the SBA as an independent agency, while at the same time achieving substantial savings through a budget freeze

and certain program reductions and eliminations. Specifically these savings are realized by:

(1) eliminating the SBA direct lending program, with the exception of loans to the handicapped ($20 million), Vietnam-era or disabled veterans ($25 million), and Minority Enterprise Small Business Investment Companies ($41 million). Thus, the SBA's direct lending program level would be reduced from $257 million to $86 million in fiscal year 1986. This results in a savings of $171 million in budget authority in fiscal year 1986.

(2) eliminating the non-physical disaster loan program, which is currently authorized at $100 million annually.

In fiscal year 1986, the SBA loan programs authorized by S. 408, along with the Surety Bond guarantee and the Pollution Control Equipment Contract Guarantee Program are all frozen at fiscal year 1985 levels. The Salaries and Expenses portion of the budget was reduced by $24 million in outlays for fiscal year 1986.

In fiscal year 1987 and 1988, S. 408 would adjust all program levels and the Salaries and Expenses account by the CBO inflation factor of approximately 4%.

The Small Business Committee conducted three days of hearings on the bill on February 21, 28, and March 7, 1985. On February 21, 1985, the Committee received testimony from four small business owners and executives whose companies had received essential financing through one of the SBA programs; from three banking officials, including the past president of the Independent Bankers Association of America, and the president of a state licensed lending institution, whose banks and company have participated in the SBA guaranteed lending programs; and from the president and chief executive officer of the National Federation of Independent Businesses. All of these witnesses attested to the important financial services provided by the SBA to the small business community and urged the Committee to maintain funding for the SBA guaranteed lending programs at adequate levels. Furthermore, all the witnesses stressed the importance of maintaining the SBA as an independent agency and advocate for small business.

On February 28, 1985, the Committee received testimony from three more successful small business owners who credited their survival and success to financial and other assistance received from one or more of the SBA programs. David A. Stockman, Director of the Office of Management and Budget (OMB), presented the Administration's proposal to abolish the SBA and transfer some of its functions to the Department of Commerce. The SBA Administrator, following his testimony suporting the Administration's plan responded to Committee questions, describing many of the reforms made at the SBA during his Administration.

On March 7, 1985, the Committee concluded its hearings by receiving testimony from the Honorable Marlene Johnson, Lieutenant Governor of the State of Minnesota, concerning the substantial benefits that the SBA and its programs have had on the small business community in that state. The Committee also received testimony from the Mayor of Springfield, Illinois, who testified on behalf of the United States Conference of Mayors, and the Mayor of Warner Robins, Georgia. Both described the importance of SBA's financing programs, in particular, the 503 Development Company

program. Also testifying were representatives of the National Association of Small Business Investment Companies, the American Association of Minority Enterprise Small Business Investment Companies, the National Association of Development Companies, Small Business United, the Small Business Association of New England, the Small Business Legislative Council, the U.S. Chamber of Commerce, the Small Business Service Bureau, and the Association of Small Business Development Centers. Representatives of these organizations were united in their unalterable opposition to the Administration's proposal to terminate the SBA. Each, on behalf of its membership, attested to the need for the essential services provided by the SBA and its programs.

On March 26, 1985, the Committee met in executive session to consider S. 408. As the basis for its consideration, the panel used a Committee print which incorporated the text of S. 408 and two new policy changes in the SBA loan guarantee program recommended by Senators Weicker and Bumpers. These two new proposals were incorporated based on testimony and recommendations received by the Committee, and the panel's assessment that additional savings could be achieved without harm to the program. The proposals included an increase in the borrower's fee in the 7(a) guaranteed lending program from 1% to 2% for loans which exceed one year, and a reduction from 90% to 80% of the maximum SBA guaranteed portion of loans. According to the Congressional Budget Office (CBO), the total savings achieved by enacting S. 408, as amended, would be $1.114 billion in budget authority and $865 million in outlays over a three year period. The breakdown in savings is as follows:

TOTAL SAVINGS FROM CBO'S CURRENT POLICY BASELINE

[In millions]

	1986	1987	1988
Budget authority	256	250	608
Outlays	233	318	314

With a quorum present, the Committee, by a vote of 16–3, agreed to favorably report the bill, as amended. Prior to that vote, the Committee rejected, by a vote of 15–4, an amendment offered by Senators Boschwitz and Gorton, which would: (1) eliminate direct loans for veterans and handicapped and provide in their place targeted guaranteed loan authority of $30 million annually for each; (2) reduce the general business loan guarantee program from $2.7 billion to $2.0 billion; and (3) eliminate funding for Small Business Investment Companies (SBICs) and Section 503 Development Companies through the Federal Finance Bank and require these programs to obtain funding, with the SBA guarantee, through private capital markets. Following that vote, the Committee adopted an amendment offered by Senator Levin, to require the SBA to utilize the full program authority subject to certain limitations. An amendment was offered by Senator Harkin to establish an annual sales size standard of $500,000 for agricultural enterprises and to prohibit discrimination against agricultural enterprises.

It was withdrawn upon receiving assurance from the Chairman that he would request an expedited review by the SBA of their current size standards for agricultural enterprises. Senator Weicker also offered and withdrew an amendment that would have repealed certain provisions of P.L. 98-270, which lowered disaster interest rates at the SBA. Senator Weicker intends to offer the amendment during Senate floor consideration pending a review of how the FmHA and the SBA administer their respective disaster assistance programs. Committee Members are seeking assurance that farmers and businesses receive fair and equitable treatment by the agencies involved.

The following charts detail, by account, SBA's current policy baseline, the authorization levels recommended by S. 408, and the savings achieved by this legislation.

SMALL BUSINESS ADMINISTRATION BUDGET

[CBO's current policy baseline]

CBO reest baseline	1985		1986		1987		1988	
	BA	Outlay	BA	Outlay	BA	Outlay	BA	Outlay
Salaries and expenses	234	272	243	299	248	322	253	331
Pollution control	0	6	0	4	0	4	0	3
Business Loan Investment Fund	484	461	523	510	531	526	541	531
Surety bond	9	15	12	14	16	15	15	16
Lease guarantee	0	1	0	1	0	1	0	1
Disaster loan	0	−232	0	−127	0	171	460	276
Interest paid to Treasury	−370	−370	−350	−350	−344	−344	−338	−338
Total, on-budget	357	153	428	351	451	695	931	820
Federal Financing Bank, SBIC	194	103	203	83	212	63	220	43
Federal Financing Bank, 503	291	285	304	296	317	307	331	320
Federal Financing Bank, development	0	−10	0	−10	0	−10	0	−10
Total, off-budget	485	378	507	369	529	360	551	353
Total unified budget	842	531	935	720	980	1,055	1,482	1,173

S. 408 AUTHORIZATIONS

S. 408, introduced	1985		1986		1987		1988	
	BA	Outlay	BA	Outlay	BA	Outlay	BA	Outlay
Salaries and expenses			210	275	214	290	218	293
Pollution control			0	4	0	4	0	3
Business Loan Investment Fund			333	393	368	359	387	387
Surety bond			12	14	16	15	15	16
Lease guarantee			0	1	0	1	0	1
Disaster loan			0	−186	0	103	114	213
Interest paid to Treasury			−350	−350	−344	−344	−336	−336
Total, on-budget	0	0	205	151	253	427	398	577
Federal Financing Bank, SBIC			194	74	202	55	211	38
Federal Financing Bank, 503			291	283	304	294	316	305
Federal Financing Bank, development			0	−10	0	−10	0	−10
Total, off-budget	0	0	485	347	506	339	527	333
Total unified budget	0	0	690	498	759	766	925	910

SAVINGS ACHIEVED BY S. 408

(From CBO's current services baseline)

S. 408 (introduced)—CBO baseline	1986		1987		1988	
	BA	Outlay	BA	Outlay	BA	Outlay
Salaries and expenses	−33	−24	−34	−32	−35	−38
Pollution control	0	0	0	0	0	0
Business loan investment fund	−190	−117	−163	−167	−154	−144
Surety bond	0	0	−1	−1	−1	−1
Lease guarantee	0	0	0	0	0	0
Disaster loan	0	−59	0	−68	−346	−63
Interest paid to Treasury	0	0	0	0	2	2
Total, on-budget	−223	−200	−198	−268	−533	−243
Federal Financing Bank:						
SBIC	−9	−9	−10	−8	−9	−5
503	−13	−13	−13	−13	−15	−15
Development	0	0	0	0	0	0
Total, off-budget	−22	−22	−23	−21	−24	−20
Total unified budget	−245	−222	−221	−289	−557	−263
Possible amendments:						
Increase guarantee fee by 1 percent	−10	−10	−19	−19	−20	−20
Reduce maximum guarantee to 80 percent	−1	−1	−10	−10	−31	−31
Subtotal	−11	−11	−29	−29	−51	−51
S. 408 savings, with amendments	−256	−233	−250	−318	−608	−314

The Committee bill as reported is as follows:

SMALL BUSINESS ADMINISTRATION PROGRAM LEVELS

SECTION 1. Section 20 of the Small Business Act is amended—

(1) by adding the following new subsections:

"(u) The following program levels are authorized for fiscal year 1986:

"(1) For the programs authorized by section 7(a) of this Act, the Administration is authorized to make $45,000,000 in direct and immediate participation loans; and of such sums, the Administration is authorized to make $20,000,000 in loans as provided in paragraph (10), and $25,000,000 in loans to be made only to disabled veterans, and veterans of the Vietnam era, as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97-72.

"(2) For the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $3,180,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $60,000,000 in loans as provided in paragraph (11), $15,000,000 in loans as provided in paragraph (12), and $450,000,000 in loans as provided in paragraph (13) and guarantees and debentures as provided in section 503.

"(3) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $41,000,000 in direct purchases of debentures and preferred securities and to make $250,000,000 in guarantees of debentures.

"(4) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $1,115,000,000.

"(5) For the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $150,000,000.

"(6) For the programs authorized by sections 7(b)(1) and 7(b)(2) of this Act there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for administrative expenses.

"(v) There are authorized to be appropriated to the Administration for fiscal year 1986, $555,000,000. Of such sum $333,000,000 shall be available for carrying out the programs referred to in subsection (u), paragraphs (1) through (3); $12,000,000 shall be available for the purpose of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $210,000,000 shall be available for salaries and expenses of the Administration.".

"(w) The following program levels are authorized for fiscal year 1987:

"(1) For the programs authorized by section 7(a) of this Act, the Administration is authorized to make $47,000,000 in direct and immediate participation loans; and of such sums, the Administration is authorized to make $21,000,000 in loans as provided in paragraph (10), and $26,000,000 in loans to be made only to disabled veterans, and veterans of the Vietnam era, as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97-72.

"(2) For the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $3,320,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $63,000,000 in loans as provided in paragraph (11), $16,000,000 in loans as provided in paragraph (12), and $470,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503.

"(3) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $43,000,000 in direct purchases of debentures and preferred securities and to make $261,000,000 in guarantees of debentures.

"(4) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $1,164,000,000.

"(5) For the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $157,000,000.

"(6) There are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

"(x) There are authorized to be appropriated to the Administration for fiscal year 1987, $597,300,000. Of such sum $368,000,000 shall be available for carrying out the programs referred to in subsection (w), paragraphs (1) through (3); $15,500,000 shall be available for the purpose of carrying out the provisions of section 412 of the Small Business Investment Act of 1958: and $213,800,000 shall be available for salaries and expenses of the Administration.".

"(y) The following program levels are authorized for fiscal year 1988:

"(1) For the programs authorized in section 7(a) of this Act, the Administration is authorized to make $49,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $22,000,000 in loans as provided in paragraph (10), and $27,000,000 in loans to be made only to disabled veterans, and veterans of the Vietnam era, as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97-72.

"(2) For the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $3,458,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $6,000,000 in loans as provided in paragraph (10), $65,000,000 in loans as provided in paragraph (11), $16,000,000 in loans as provided in paragraph (12), and $489,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503.

"(3) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $45,000,000 in direct purchases of debentures and preferred securities and to make $272,000,000 in guarantees of debentures.

"(4) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $1,213,000,000.

"(5) For the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $163,000,000.

"(6) There are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out

of the provisions and purposes, including administrative expenses, of section 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

"(z) There are authorized to be appropriated to the Administration for fiscal year 1988, $619,800,000. Of such sum $387,000,000 shall be available for carrying out the programs referred to in subsection (y), paragraphs (1) through (3); $14,500,000 shall be available for the purpose of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $218,300,000 shall be available for salaries and expenses of the Administration."; and

(2) by striking from subsection (t) "for each of such years" and inserting "for fiscal year 1985".

DISASTER LENDING REFORMS

SEC. 2. Section 7(b) of the Small Business Act is amended by striking paragraphs (3) and (4).

SEC. 3. Section 7(a) of the Small Business Act (15 U.S.C. 636(a)) is amended by striking out "90" each place it appears and inserting in lieu thereof "80".

SEC. 4. Section 7(a) of the Small Business Act (15 U.S.C. 636(a)) is amended by adding at the end thereof the following:

"(16) The Administration shall collect a guarantee fee equal to 2 percent of the amount of the deferred participation share of any loan under this subsection other than a loan repayable in one year or less or a loan under paragraph (13). The fee shall be payable by the participating lending institution and may be charged to the borrower.".

PROGRAM GUARANTEE AUTHORITY

SEC. 5. Section 20(a) of the Small Business Act is amended—

(1) by inserting "(1)" after "Sec. 20(a)"; and

(2) by adding at the end thereof the following:

"(2) Notwithstanding any other provision of law, the Administration shall enter into commitments to guarantee loans, debentures, payment of rentals, or other amounts due under qualified contracts and other types of financial assistance and enter into commitments to guarantee sureties against loss pursuant to programs under this Act and the Small Business Investment Act of 1985, in the full amounts provided by law subject only to (A) the availability of qualified applications for such guarantees, and (B) limitations contained in appropriations Acts. Nothing in this paragraph authorizes the Administration to reduce or limit its authority to enter commitments for such guarantees to qualified applicants.".

II. NEED FOR LEGISLATION

A. INTRODUCTION

The Committee joins with every major small business association in rejecting OMB's plan to eliminate the SBA, the only agency whose sole mission is to serve small enterprises.

Small business organizations which are on record in favor of maintaining an independent SBA, to provide financial assistance, include the following:

National Federation of Independent Business;
Small Business United;
National Small Business Association;
Small Business Legislative Council;
United States Chamber of Commerce;
Small Business Service Bureau, Inc.;
National Association of Small Business Investment Companies;
National Association of Women Business Owners;
National Association of Minority Contractors;
Latin American Manufacturers Association;
National Society of Public Accountants;
International Communications Industries Association;
National Association of Plumbing-Heating-Cooling Contractors;
American Council of Independent Laboratories;
American Association of Minority Enterprise Small Business Investment Companies;
Independent Bankers Association of America;
American Institute of Certified Accountants;
Specialty Advertising Association International;
Brick Institute of America;
National Tooling & Machining Association; and
National Association of Manufacturers.

John E. Sloan, President of the National Federation of Independent Business gave this clear rejection of the Administration's plan to abolish the agency:

> . . . let me state for the record that NFIB opposes any and all efforts—by the Administration or any other source—to shut down the SBA.

Governor Ed Herschler of Wyoming provided the Committee with an eloquent summation of the SBA's contribution to small business, and this plea for its continuation:

> While you are contemplating the abolishment of the Small Business Administration, I urge you to consider the aggressive marketing, the private sector participation, the spectrum of financing tools available, and the performance goals established, specific to the number of jobs created, dollars of financing generated and the number of businesses assisted by this agency. The Small Business Administration has offered more toward the development and growth of small business in Wyoming and the United States than any other federal agency today. The Small Business Administration is an effective agency which performs a needed and valuable role in promoting and facilitating economic growth and development. Abolishing the SBA during today's highly volatile economic times could be a mistake that will cost the nation dearly in the years to come.

Thomas E. Donley testified before the Committee on behalf of the United States Chamber of Commerce, and gave this staunch endorsement for maintaining the SBA:

> We do not agree with President Reagan's proposal to eliminate the SBA . . . The U.S. Chamber of Commerce (U.S. Chamber) is committed to a strong, independent Small Business Administration (SBA) agency representing small business interests in national policy formulation and providing and promoting services for small businesses.

The Small Business Legislative Council, through its Chairman, Walter E. Galanty, stated that:

> Eliminating the Small Business Administration is absolutely inconsistent with the fundamental economic goals of the Reagan Administration. SBA programs have played a pivotal role in leveraging new job opportunities which have generated billions of dollars in revenue for the Treasury.

Finally, Brad Roller, President of Small Business United (SBU), expressed the views of this organization in these succinct remarks:

> So as not to equivocate, let me make two points crystal clear. One, SBU adamently opposes the Administration's proposal to abolish the Small Business Administration (SBA). We support the continued operation of the SBA as an independent federal agency. And two, we support Senate passage of S. 408.

1. The Administration's Plan

The President's budget for fiscal year 1986 includes a proposal which, if enacted, would eliminate the Small Business Administration (SBA) as an independent executive agency; terminate all SBA financial assistance programs and transfer the existing SBA loan portfolio to the Treasury Department for liquidation; terminate all but a few of the SBA's small business management assistance programs; and transfer to the Department of Commerce the remaining SBA programs, to be merged with the department's Minority Business Development Agency, forming a new Enterprise Development and Opportunity Administration.

SBA programs slated by the Administration for transfer to the Department of Commerce would include the Office of the Chief Counsel for Advocacy, the Office of Procurement and Technical Assistance, the Office of Innovation, Research and Technology, the Office of Minority Small Business and Capital Ownership Development, and the SCORE and ACE management assistance programs. In fiscal year 1986, this new Commerce office would have an operating budget of $52 million and 703 full time employees.

The Administration's proposal calls for the termination of all direct and guaranteed business loans, effective October 1, 1986. The following chart reflects the SBA's business loan program levels in fiscal year 1985:

Business loan and investment fund appropriated fiscal year 1985 (loan program levels)

	Millions
General business loans:	
Direct & IP	108
Guaranteed	2,650
Handicapped loans:	
Direct & IP	24
Guaranteed	5
Economic business loans:	
Direct & IP	45
Guaranteed	60
Energy loans:	
Direct & IP	3
Guaranteed	15
Development company loans:	
Direct & IP	5
Guaranteed	450
Investment company loans:	
Direct & IP	47
Guaranteed	365
Veterans loans:	
Direct & IP	25
Guaranteed	0
Total business loans:	
Direct & IP	257
Guaranteed	3,445

Furthermore, the Administration proposes to eliminate all disaster loans to homeowners and business devastated by natural disasters. Over the past two years, SBA has provided 26,365 disaster loans, totalling 515,060,120 to cover uninsured loss caused by floods, tornados, hurricanes or other physical disasters.

Finally, the Administration's proposal would terminate almost all of the SBA's management assistance and special outreach programs. The small business management assistance programs slated for elimination include the nationwide Small Business Development Center (SBDC) and Small Business Institute (SBIC), as well as the SBA management assistance representatives located at the 119 SBA field offices, which also would be abolished. The SBA "special programs" slated for elimination are the Office of Women's Business Ownership, the Office of Private Sector Initiatives, and the Office of Veterans Affairs. The Administration maintains that these programs "duplicate private sector activities as well as those being transferred to the Department of Commerce."

2. Asset sale

The Administration estimates a total savings of $4.9 billion in budget authority and $5.3 billion in outlays from the elimination of the Small Business Administration. Approximately 34% of those savings are achieved by selling SBA's loan portfolio.

Senators Weicker and Bumpers have expressed strong opposition to the Administration's proposal to sell the SBA's loan assets. In their original budget submission, OMB projected that the federal government would receive 19 cents on a dollar, resulting in $2.3 billion from the sale of SBA's $12.0 billion loan portfolio. SBA's historical collection data indicated that more than 80 cents on a dollar would be collected if the agency continued to manage its own portfolio. In testimony before the Committee, OBM Director Stockman refined his original estimate. In his testimony, he indicated that

the 19 cents on a dollar was a conservative estimate and the resulting sale could realize as much as 32 cents on a dollar.

In response to a Committee question, Mr. Sanders, Administrator of the SBA, anticipated that $9.6 billion of the $12.0 billion would be collected, if SBA was allowed to service the loan portfolio. Mr. Sanders further commented that:

> The average life of the portfolio is 9 years, however, it would take at least 15 years to totally amortize the portfolio. Based on today's servicing costs, the total administrative cost to service the portfolio for 1986–2000 would be approximately $612 million.

An analysis of the $12.0 billion portfolio is as follows:

[Dollars in millions]

	Average maturity years	Amount outstanding September 30, 1985
Direct loans:		
Business	6	$650
EOL	5	90
HAL	9	100
MESBIC	6	375
Disaster	7	3,775
DCL	10	260
Subtotal		5,250
FFB loans:		
SBIC	6	720
503	16	1,160
Subtotal		1,880
Repurchases:		
Business	6	225
EOL	4	5
Guaranteed loans	6	750
Future purchases	6	1,500
Other	N/A	25
Subtotal		2,505
Other SBA loan assets:		
Delinquent loans	N/A	730
Loans in liquidation	N/A	1,689
Subtotal		2,419
Total		12,054

Under the Administration's plan, the taxpayer would lose an additional $5 billion over the next decade.

John Sloan, President of NFIB, best summarized the weakness in OMB's savings numbers:

> Shutting down the agency and selling off its portfolio would cost the taxpayer, in lost loan repayments, almost exactly the amount OMB is claiming would be saved.

The Committee notes that the Administration, during consideration of the 1981 Reconciliation bill, expressed strong opposition to a House provision authorizing a sale of SBA loan assets as a means of avoiding program reductions.

Mr. Cardenas, the Administrator of SBA, wrote to the Committee, in a letter approved by OMB:

> Although reportedly "scored" by the Congressional Budget Office as savings we do not believe represents a real savings. We would at best secure some 40 cents on a dollar.

In a document submitted directly to the Committee, OMB agreed that the SBA loans "would have to be sold at deep discounts to be marketable." For this reason, they opposed the sale.

The Committee further notes that as of September 30, 1985, the disaster loan portfolio will consist of approximately $5 billion. The disaster loan is a highly subsidized direct loan, which both CBO and OMB estimates will give 25 cents on a dollar when sold in the private market.

S. 408: A LEGISLATIVE RESPONSE

S. 408, a bill to authorize programs and activities of the SBA for fiscal years 1986–1988, represents a forthright legislative response to the Administration's proposal to dismantle the agency, and makes a clear statement that the starting point for any Senate deliberations with regard to the agency's funding will be this legislation, and not the Administration's budget proposal.

Section 202 of Public Law 163 well states the policy of Congress which led to the establishment of the Small Business Administration:

> The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiative and individual judgment be assured. The preservation and expansion of such competition is basic not only to the economic well-being but to the security of this Nation. Such security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed. It is the declared policy of the Congress that the Government should aid, counsel, assist and protect insofar as is possible, the interests of small-business concerns in order to preserve free-competitive enterprise . . .

These reasons supporting the original Congressional authorization of the SBA still hold true today. Contrary to the belief of this Administration, it is evident to the Committee that SBA fulfills an important public policy purpose and that the agency should be maintained and strengthened.

The SBA has an impressive record of providing critical assistance to large numbers of small business owners and operators. The agency's role in maintaining a viable and progressive small business sector and creating an economic climate conducive to individ-

ual initiative and opportunity is demonstrated by the following accomplishments:

The 7(A) Guarantee Lending Program has resulted in 500,000 small business loans, a great majority of them long-term, totalling $36 billion. These loans helped fill a long-term credit gap, which has been documented over the past 50 years by studies conducted by the Department of Commerce, the Federal Reserve Board, Senate Committee on Banking and Currency, and the General Accounting Office;

SBA, through its Small Business Investment Company (SBIC) and Minority Enterprise Small Business Investment Company (MESBIC) venture capital programs, has provided $2 billion in equity capital to 70,000 small businesses, creating 250,000 jobs;

SBA, through its 503 Development Company Loan Program, has provided $703 million in economic development loans, generating 100,000 jobs;

Management assistance programs including Small Business Development Centers, Service Corps of Retired Executives (SCORE), Active Corps of Executives (ACE), and Small Business Institutes, have counseled or trained more than 3 million entrepreneurs, teaching them essential management skills, without which many businesses fail;

The Surety Bond Guarantee Program, enabling small contractors to obtain the surety bonding required to bid on almost all federal, federally-funded, and private construction contracts, has guaranteed 166,000 surety bonds permitting the award of $12.9 billion in contracts to small businesses which otherwise would not have been able to obtain such contracts;

Pollution Control Equipment Contract Guarantee Bond Program has provided small firms with an important source of capital as they seek to comply with mandated environmental standards;

Procurement programs have helped to direct $118.4 billion in federal contracts to small enterprises, $52.3 billion having been achieved through small business "set-asides", and $75.2 billion in subcontracts, since 1980;

SBA's 8(a) program brings minority contractors into the economic mainstream through participation in the federal procurement process. From fiscal year 1981 through fiscal year 1984, 19,115 Section 8(a) contracts were awarded totalling slightly less than $10 billion.

The SBA Administrator and the Chief Counsel for Advocacy have been effective advocates for this nation's small business. Through the issuance of "The State of Small Business: Report of the President", the establishment of a small business economic data base, the installation of a toll-free phone line at the SBA to answer small business questions, the sponsorship of state and local legislative issues conferences, and the planned participation in the White House Conference on Small Business, the SBA has been a strong voice for small business in the executive branch.

The recently created Small Business Innovation Research (SBIR) Program, which the SBA oversees, resulted in 11 feder-

al agencies making research awards to small research and development companies totalling $416.5 million.

The Committee believes that the SBA's record of economic accomplishments, in terms of number of jobs created and revenues generated far exceeds the cost to the government, and add, up to a convincing case for maintaining the agency.

In summary, the Committee rejects the Administration's plan to abolish the SBA for these specific reasons:

It would eliminate the only agency in the Executive Branch whose sole mission is to promote and assist the nation's 14 million small businesses, which account for 97 percent of all businesses and annually create over 80 percent of all net, new jobs (in 1981 and 1982, 100 percent of all net, new jobs were created by small business according to the President's most recent Report on the State of Small Business);

It does not take into account the significance of small businesses' impact on the economy as a whole, the stimulus that SBA programs provide to the small business growth and stability and the essential advocacy role of SBA on behalf of the nation's small businesses;

It fails to recognize all of the positive developments made at SBA during the past few years because of the Committee's oversight and the administrative reforms instituted by SBA Administrator James C. Sanders;

It would abolish solid core of programs carefully crafted and legislated by Congress specifically to assist small businesses in obtaining long-term financing and management and technical assistance; and

It would reverse a long established Congressional policy of providing timely federal assistance to communities trying to rebuild from the devastation caused by a natural disaster.

B. Small Business Credit Programs: A Vital Source of Long-Term Capital

Over the past several years, this Committee has emphasized those SBA lending programs that have been proven most effective and which rely on private sector resources. Accordingly, S. 408 continues to adequately fund the 7(a) general business loan guarantee program, 503 Development Company loans, and Small Business Investment Companies. Each of these programs help to fill the small business long-term financing gap.

1.7(a) Loan Guarantee Program

The SBA's 7(a) Loan Guarantee Program fills a critical void in the credit market by providing small enterprises with long-term loans which are generally not available from banks, absent the SBA guarantee.

John Sloan, President of the National Federation of Independent Business, testified as to the importance of this program to the small bussiness community:

> While it is certainly true that most small businesses are initially capitalized with personal savings, or funds from friends and relatives, it is also true that small business

> owners are frequent borrowers who rely heavily on commercial banks. Without access to other means of financing available to large concerns, small business is at the whim of the commercial banking system which is too often averse to making small loans or to providing long-term loans to small firms. This is where the 7(a) guaranteed loan program comes in. GAO, in a 1983 analysis estimated that "approximately 30 to 40 percent of the dollar amount of banks' long-term financing (6 or more years) to small business may carry an SBA guarantee."
>
> The guaranteed loan program has been filling a void in the financing of small business and should continue to do so. SBA's Administrator Jim Sanders has done an admirable job in improving the delivery system, placing more and more responsibility for reviewing, approving, and servicing loans within the lending institutions.

William Saigh, a successful restaurant owner and recipient of SBA financial assistance, told the Committee of the difficulties small business have obtaining debt financing from banks:

> Today you have large banks fulfilling the needs and activities of large businesses and neither banks nor venture capitalists are going to provide financing for the wild-eyed dreamer, the innovator nor the maverick inventor. NEVER EVER!! For both of these types of investors one must provide proof of success *before* the fact—which is impossible to provide on an innovative idea. I walked into these seventeen banks and said that I wanted to open a restaurant. They laughed. I said it was going to be a restaurant that no one had attempted before in the industry . . . an entree dinner salad restaurant where all of the sixteen to twenty salads would be on display to help guests decide upon the salad they wished to select. They (the bank officers) were hysterical!!
>
> *Without the SBA the under collateralized budding entrepreneur has nowhere to turn.* The banks want no part of him/her and, if they are acceptable to venture capital sources, they want a piece of your tail and mid-section too.

The General Accounting Office, in its *1983 Report to Congress, SBA's 7(a) Loan Guarantee Program: An Assessment of its Role in the Financial Market,* reported the findings of its entensive study of the 7(a) program. GAO called the SBA's general business loan program, "the Federal Government's answer to small business' need for long-term financing." The study revealed that the guarantee program has encouraged lenders to finance new ventures, make longer term and larger small business loans, with no evidence of "crowding out" of other small business discernible impact on the general level of interest rates.

SBA Administrator James Sanders backed GAO's finding with regard to "crowding out" in his response to a Committee question:

> I personally have not seen any evidence of crowding out of small business borrowers as a result of the SBA loan guarantees. Indeed, as a result of the SBA Secondary

> Market, many lenders sell their SBA guarantee portions to investors and use the proceeds to make additional loans to small businesses.

GAO's statistical sampling of approximately 60 percent of all commercial banks found that:

> 13 percent of all outstanding small business loans were SBA-guaranteed;
>
> 74 percent of SBA guaranteed loans were long-term, while only 15 percent of non-guaranteed loans to small businesses were long-term;
>
> 82 percent of lenders stated that without the SBA guarantee, the loans the issued to small businesses would not have been made, or would have had more stringent terms and conditions.

Governor Ed Herschler of Wyoming described the tremendous market penetration of SBA-guaranteed loans in his state, and highlighted their particular importance to small banks, often hamstrung in their ability to issue debentures because of their liquidity requirements. Governor Herschler stated:

> To date, the Small Business Administration has packaged over 6,000 loans, to the tune of $518 million in Wyoming. In the past, the SBA's average participation per loan has hovered near $80,000; however, in 1984, that figure jumped to $140,000.
>
> There are 110 banks in Wyoming that have participated with SBA and their programs. Considering that there is only a total of 114 banks in the state, mostly very small, with an average lending limit of $30,000, the Small Business Administration has effectively offered our financial institutions the liquidity needed.
>
> This combined public/private partnership has succeeded in maintaining one of the highest small business loan ratios in the United States.

John W. McClure submitted testimony on behalf of the American Bankers Association (ABA), referenced GAO's conclusions on the 7(a) program, and confirmed that "these results reflect the experience of our Small Business Credit Committee members with this program." He further noted,

> We believe the Administration's proposed elimination of the 7(a) Loan Guarantee Program would have an adverse effect on the ability of our members to provide financial assistance in their communities. In addition to increasing the liquidity the credit strength of our members, the 7(a) Loan Guarantee Program is helpful in promoting economic development, particularly for many smaller community banks.

Mr. McClure submitted ABA statistics showing the market penetration of SBA loan guarantees, and what would result if they were eliminated:

> The banking industry has been a major participant in various SBA programs for years. A primary example is the loan guarantee program, which was authorized by section

> 7(a) of the Small Business Act of 1953. As of September 30, 1984, 9,923 commercial banks (almost 70 percent of the industry total) had at least one guaranteed loan outstanding. Of that total, an estimated 1,627 banks had between 10–24 loans, and 635 banks had 25 or more loans each . . . The small businesses that would be affected by the Administration's proposed elimination of the 7(a) Loan Guarantee Program could lose their only source of financing or find themselves unable to develop a viable long-term financing package.

Kenneth Guenther, Executive Director of the Independent Bankers Association of America (IBAA), in a statement submitted to the Committee on behalf of the 7,800 community banks comprising the organization, stated that,

> To the best of our knowledge, every leading expert in small business finance would argue that long-term credit is essential to growing small firms and that the supply is woefully inadequate. It is precisely in this area that the SBA's presence is so significant.

The IBAA's statement further elaborated on the importance of the SBA's loan guarantees in helping to meet small business credit need, given the dearth of long-term small business loans. Mr. Guenther explained,

> Deregulation of the interest rates banks can pay on deposits has already had an impact on the financing available to small businesses. Real interest rates are higher and more volatile than before and the greater uncertainty in the cost of funds has all but eliminated the ability of banks to make long-term, fixed rate commercial loans. In such an environment the SBA loan guarantee program has played a critical role in making this important form of financing available to small firms.

The IBAA expressed strong opposition to the Administration's plan to terminate SBA loan guarantees. Mr. Guenther noted that OMB has failed to demonstrate,

> . . . that either (a) there is sufficient long-term and fixed rate credit available to small businesses nationwide or (b) small business as a group do not need such loans to finance expansion, new plant and equipment. It seems that Congress should not consider abolishing the SBA until it is convinced that either (a) or (b) is true.

Mr. Guenther cited key improvements in the 7(a) program made under reforms instituted by SBA Administrator James Sanders, and concluded that,

> The IBAA strongly supports continued existence of the SBA and its loan guarantee programs as part of an independent agency. The guarantee programs have been improved tremendously in recent years. The Certified and Preferred Lenders Programs have removed the key credit decision process from the SBA and placed it with private

lenders, which have extensive credit experience and know their business communities intimately. It would be a tremendous disservice to the small business community to discontinue or curtail the guaranteed loan programs under SBA. The IBAA pledges to help this Committee in its efforts to keep the SBA alive and in the business of guaranteeing loans.

Robert L. McCormick, Jr., President and Chief Executive Officer, Stillwater National Bank and Trust Company, Stillwater, Oklahoma, used his city as an example of a community that has witnessed economic growth and revitalization due to the SBA's bank guarantee program. He concluded that,

> The SBA guaranteed lending programs have been vitally important to the growth of our customers, our bank, and our community. Without the SBA:
>
> Many new businesses in our community would never have been started,
>
> Many existing businesses would not have been able to expand,
>
> Many employees of new and expanded existing businesses would either be out of work in Stillwater, or they would have moved to other communities in search of jobs,
>
> Many services that significantly raise the quality of life in our community would not have been made available to our citizens,
>
> Many of our citizens would be forced to drive to major metropolitan areas to acquire goods and services that they can now purchase in Stillwater,
>
> Many old buildings in our community would continue to be deteriorating rather than having been remodeled and refurbished into beautiful, almost new facilities,
>
> Many of our borrowers would have had to borrow money that would have to be repaid over several years at floating interest rates without any assurance that the rates would remain at a level which they could afford,
>
> Many businesses in our community would have been unable to computerize their operation or purchase new and more efficient equipment and thus either the services provided to our citizens would have been of lower quality or these local businesses would have failed as they tried to compete with large businesses who use computerized modern equipment to reduce the cost of their products and services,
>
> Many dreams that have become reality today would still be dreams or might have turned to bitterness at their lack of realization.

Baily S. Barnard, President of the National Association of Government Guaranteed Lenders refuted Mr. Stockman's criticisms of

the 7(a) program, calling them "uninformed, inaccurate and unjustified." He further stated.

> Mr. Stockman demonstrates his naivete and lack of understanding of the financial marketplace in his contention that federal loan guarantees are unnecessary, that private capital sources alone are sufficient for expansion financing for business. There is, in reality, a void in the financial marketplace. Without guarantees by the SBA, long term capital is simply not available to many good quality, creditworthy small businesses . . . It is the SBA loan guarantee program that has made possible what long term financing does exist for small businesses.

Mr. Barnard made this case for maintaining the SBA and its loan guarantee program:

> It has been estimated that for every $1 billion of SBA guaranteed loans, approximately 100,000 jobs are created or retained in the private sector. As a result, the government realizes a significant return on its investment through increased business and personal taxes as well as its savings on welfare compensation payments. In fact, it has been estimated that each dollar of SBA financing generates $7 of revenue to local and federal governments. In effect, the SBA loan guarantee program returns money to the government after covering the cost of administration and losses.

The SBA's loan guarantee program effectively utilizes private sector resources and expertise in forming a classic public/private partnership providing small firms with access to long-term financing, otherwise unavailable. With this in mind, S. 408 maintains the 7(a) program in fiscal year 1986 at $2.73 billion, and adjusts that level for inflation in fiscal years 1987 and 1988.

2. SBIC Program

The Small Business Investment Act of 1958, which authorized the Small Business Investment Company (SBIC) Program, recognized "that small business concerns are faced with a real difficulty in obtaining long-term and equity capital required for adequate growth and development. Commercial banks are not able to furnish such financing; their function lies primarily in short- and intermediate-term lending; they do not supply venture capital or long-term credit." Since its inception, the SBIC industry has become a major source of equity capital for small businesses, it now represents over 20% of venture capital funds dispersed.

SBIC's and Minority Enterprise Small Business Investment Companies (MESBICs) are SBA licensed companies which, through a private and public sector partnership, provide equity capital, long-term loans, and management assistance to small businesses. SBIC's are responsible for many of our nation's great small business success stories. Companies which have stimulated the economy and provided thousands of jobs, such as Cray Research Inc., and Essence Magazine, would not have started without SBA financing.

In return for a commitment to invest in small businesses, SBIC's are licensed by the SBA and authorized to issue debentures backed by federal guarantees. SBIC's obtain funding from the Federal Financing Bank at full cost of money to the Treasury, plus a premium. There is no government subsidy attached to the loan. MESBIC's, which go through the same licensing procedures as SBIC's, obtain leverage capital from the government through the purchase of preferred securities in the MESBIC itself and through debentures. To be licensed an SBIC, and MESBIC must have at least $1 million in private sector, paid-in capital. Before an SBIC or MESBIC can receive any leverage funds, it must have first committed at least 60 percent of its own capital to investments in small business concerns.

The SBIC and MESBIC venture capital programs have produced jobs, economic gains, and tax revenues far exceeding government outlays, and should be maintained.

On September 21, 1983, President Reagan addressed the National Association of Small Business Investment Companies (NASBIC) at their 25th anniversary commemoration. The President delivered this eloquent testimonial to the success of the SBA's equity capital programs, inspiring every SBIC manager, small business entrepreneur, member of Congress, and SBA official present:

> S.B.I.C.'s and MESBIC's have been pioneers of private sector/government efforts to expand the availability of venture capital for small businesses. Your product and service breakthroughs, the jobs created and retained, the economic gains, and yes, the additional taxes collected over the last quarter century from your program's success have real meaning for all of us.
>
> You've proven that public/private partnership can do things that government alone cannot accomplish. The ingenuity, perseverance, and profit motive of the private sector works remarkably well with government encouragement. This is where you fit in. And it's not just money. Even more than the impresive financial assistance you've provided is the development of a reservoir of human capital. The S.B.I.C. managers have strengthened the ability of the small business sector to innovate, compete, and grow.
>
> The sole role of the minority enterprise small business investment companies, which we also recognize tonight, is to assist small businesses whose ability to compete is hampered by racial or ethnic considerations. This mission ties in directly with my goal of ensuring that all Americans share in the opportunities of our free enterprise system.

William R. Thomas, Chairman of NASBIC, and President of Capital Southwest Venture Corporation, Dallas, Texas, refuted the assertion of Budget Director David Stockman that the SBA doles out "subsidized credit." Mr. Thomas pointed out that:

> There's no subsidy in the SBIC program!! When SBIC's borrow from the federal financing bank, through an SBA guaranty, they pay more than the cost of money to the

> treasury. For the past seventeen months, operating SBIC's and those applying for licenses have paid sufficient fees to cover most of the costs of operating the investment arm of SBA, and for the past two months, SBIC's have paid a "user fee" when they borrow. We estimate that this new user fee will bring in more than $2 million each year. Thus, just by paying these fees, SBIC's offset all the costs of the program, without taking into consideration taxes paid by SBIC's themselves, their partners or shareholders, and the increased taxes paid by SBIC portfolio companies and their employees.

Mr. Thomas further countered OMB's claims with these comments:

> Mr. Stockman implied in his statement last week that we do not need SBIC's now that a large venture capital industry exists. I reject that conclusion for five reasons. (1) SBIC's still account for more than 20 percent of the resources of the total venture capital universe and the loss of the more than $2 billion committed to SBIC's would be an enormous blow to U.S. small businesses. (2) in common with every other SBIC and venture capital manager, I know that the entire venture capital industry cannot finance all the qualified investment opportunities we see—it's not a case of "too many dollars chasing too few good deals". (3) Most SBIC's invest in situations which are not feasible for other venture capital firms. By using leverage, SBIC's can make an acceptable return on their invested capital by providing funding to entrepreneurs in traditional industries. For that reason, SBIC's are able to assist a much wider range of businesses than the firms in other segments of the venture capital industry * * * (4) The SBIC industry has a far greater geographical dispersion than the rest of the industry; there are licensees in 46 states. Small business benefits from this broad distribution of SBIC's. (5) The highly cyclical nature of the non-SBIC segment of the venture capital industry could mean that no venture capital dollars would be available if there were no SBIC's.

Clearly the SBIC program generates tax revenues far in excess of government outlays, illustrated with the following chart, showing the growth in sales, jobs, and taxes paid by 10 successful recipients of SBIC loans. These firms are among the SBIC-backed companies exemplifying capitalism at its dynamic best. They represented almost $199 million in federal tax revenues collected by the government in just one year.

EXAMPLES OF SMALL COMPANIES THAT RECEIVED FINANCING FROM THE SBIC PROGRAM

	At time of SBIC financing				As of last available data				
	As of	Sales	Profits	Employees	As of	Sales	Profits	Taxes	Employees
Apple Computer, Inc	Sept. 30, 1977	$773,977	$41,575	63	Sept. 30, 1983	$982,769,000	$76,714,000	$69,408,000	2,050
Federal Express Corp	June 30, 1973	6,769,112	(4,460,896)	518	May 31, 1984	1,436,305,000	115,430,000	(15,964,000)	18,400
Intel Corp	Dec. 31, 1969	565,874	(1,887,808)	218	Dec. 31, 1983	1,121,943,000	116,111,000	62,344,000	19,400
ROLM Corp	July 3, 1970	292,253	(358,586)	32	July 1, 1983	502,642,000	60,952,000	25,409,000	7,049
Cray Research, Inc	Dec. 31, 1972	58,327	(3,137)	12	Dec. 31, 1983	125,008,000	26,071,000	19,991,000	1,551
Pandick, Inc	May 31, 1965	3,315,665	55,497	655	Aug. 31, 1983	121,086,000	10,038,000	9,653,000	1,300
Lifeline Systems, Inc	Dec. 31, 1979	707,000	(260,000)	19	Dec. 31, 1983	9,644,000	348,000	12,000	220
Digital Switch Corp	June 30, 1979	0	(639,532)	20	do	127,052,000	25,473,000	19,737,000	894
NBI, Inc	June 30, 1976	451,186	(859,809)	55	June 30, 1983	96,780,000	4,590,000	1,095,000	1,846
Network Systems Corp	Dec. 31, 1975	25,690	(348,099)	12	Dec. 31, 1983	47,030,000	10,030,000	7,275,000	462
Recorded totals		12,959,084	(8,720,795)	1,604		4,570,259,000	445,757,000	198,960,000	53,172

Cray Research, Inc., the world's leading supplier and developer of supercomputers and supercomputing technology, is a stunning SBIC success story. The company received an SBIC loan in 1975, and grew to be an outstanding generator of revenue for its principals, and for the government as well.

John F. Carlson, the firm's Executive Vice-President and Chief Financial Officer, made the following statement illustrating the very tangible way that Cray has been able to repay the government for its investment:

> Through the success of Cray Research, Inc., the American taxpayer has realized a direct revenue gain of over $100 million over the last seven years. Cray's total employment has grown to over two thousand people with a total payroll of over $60 million per year. Despite the company's strength today, however, the company came close to failing in 1975 due to a lack of sufficient capital. At that time, emergency venture capital was raised from several companies, the majority of which were funded by the Small Business Investment Company (SBIC) Program. A number of experts familiar with both the specific case and the difficult state of the venture capital markets in 1975 agree that the SBIC funding was a "make or break" component of the financing. Put another way, the taxpayers' investment of less than $500,000 in SBIC funding for Cray Research in 1975 is currently yielding a direct revenue return of over $30 million per year in corporate and personal income taxes. Since 1975, Cray Research has already contributed over $100 million in total tax revenues and has generated over two thousand jobs.

Mr. Carlson emphasized the critical role played by SBIC financing:

> . . . . the role of the SBIC program in securing continuation capital for Cray Research in 1975 cannot be overemphasized. Some may claim that if the SBIC had not been there, Cray would have found another way. Our venture capitalists tell us otherwise.

Mr. Thomas referenced Mr. Carlson's testimony and cited the Cray example to show how the gains produced by this one SBIC winner has compensated for program losses:

> At NASBIC's annual meeting last November, an official of the investment division of SBA stated that SBA had written off only $38-million in loans to SBICs during the first 25 years of the program. That's an average of $1.5-million a year. We estimate that the average outstanding leverage during that 25 year period has exceeded $500-million, so you can see that SBA's average loss on its portfolio is less than one-half of one percent a year. On February 21, John Carlson of Cray Research told your Committee that his company owed its existence to the work of an SBIC; he also stated that Cray Research has already paid a total of $83-million in federal corporate taxes in the few years since it became profitable. Think of it: Uncle Sam

has lost a total of $38-million on its loans to all SBICs, but has received more than twice that amount in taxes from just one company.

Edward G. Green, President and Chief Executive Officer of Pandick Press, Inc., described the successes of his firm, which started with an SBIC loan, and the company's subsequent contributions to the economy:

> . . . . when you consider the growth of so many of the corporations that have started with help from the SBICs and you take what they pay and look what we pay. We paid a total now of $37 million in federal taxes. We have paid $12 million in that period city and state taxes. We only made $49 million so it was 50–50. We paid our full share of taxes.
>
> Our payroll this last year was $63 million. We started out with 152 people. At the present time, we have over 1,500, all of whom are paying taxes, all high tech people, computer oriented, computer trained. We took people who are linotype operators, converted them to computer operators, gave them a whole new technology and opened up a whole new field for our industry.

With regard to the mission of the agency, the claim has been made that the SBA ". . . serves almost no rigorously defined public policy purpose." A clear illustration of the fallacy in this statement is the documented fact that minority business owners do not compete on a level playing field, and are very often shut out of credit markets and other business opportunities. The SBA, through its MESBIC program, has opened and expanded business and market opportunities within the minority community.

Patrick Owen Burns, Chairman of the American Association of Minority Enterprise Small Business Investment Companies (AAMESBIC), commented on this point and told the Committee,

> First, I would like to point out that, contrary to Mr. Stockman's statement, the MESBIC Program serves a very well-documented public policy objective. MESBIC's are mandated to invest "solely in small business concerns which will contribute to a well balanced national economy by facilitating ownership in such concerns by persons whose participation in the free enterprise system is hampered because of social or economic disadvantages." As Mr. Stockman himself admitted in his testimony, in some cases public interest and social policy gains outweigh the importance of pure market efficiency.

Mr. Burns countered OMB's claims that SBA programs reduce marketplace efficiency, job creation, and economic growth with these impressive MESBIC statistics:

> Since 1976, the MESBIC industry has invested over $391 million in 4,772 small business concerns. MESBIC investments since 1977 have helped to create or maintain over 75,000 jobs. More importantly in terms of the budget, MESBIC investments since 1978 have generated federal

> and state tax revenues of approximately $487 million. When combined with the unemployment wages saved through MESBIC job generation, the total benefit over the seven year period is approximately $886 million. In looking at the annual cost to the government of administering the MESBIC program, the excess government revenue over costs is well over $150 million.

Edward Lewis, Publisher and Chief Executive Officer of Essence Communications, Inc., told the Committee how his firm got its start with help from the MESBIC program:

> Clarence Smith and I found Essence back in 1970 with start-up financing from MESBICS and other sources. * * * In 1973 our three-year old brainchild had 25 employees, sales of $1,500,000 and losses so heavy that I still shudder to remember.
>
> Part of our start-up financing had come from the MESBIC industry, and while most investors in a situation like ours would move quickly to cut their losses, our venture capital investors stayed for the long haul. In fact, these MESBIC executives worked the numbers carefully—from operating costs to market potential— and determined that Essence had the growth and profitability potential to warrant a larger financial commitment than before.
>
> Five MESBIC's syndicated an investment in Essence of over $1 million.
>
> * * * Essence Magazine, the leading magazine for black women, now has a circulation of 800,000 and advertising revenues of $11,000,000 * * * the company employs 90 people, and has revenues of $20,000,000. * * * Our projections for next year are $25,000,000 in revenue and profits will be substantial. In addition to the fine publication we have created, the market we serve, the excellent women and men we employ, the taxes we pay and the profits we enjoy, Essence had repaid $800,000 to our MESBIC investors who have paid back their loans along with dividends to the Small Business Administration.

Clearly, SBIC's and MESBIC's are public-private partnerships helping scores of aspiring entrepreneurs to realize their dreams. Through these program avenues, the government has been meeting the commitments of eager innovators, long on ideas and short of ready cash, and has become a silent partner in important technical advancements, job generation, and a prospering economy. With an eye toward maintaining these effective programs, the Committee, through S. 408, freezes SBIC's and MESBIC's in fiscal year 1986 at their fiscal year 1985 levels, $250 million for SBICs and $41 million for MESBIC's, and adjusts program levels for inflation in fiscal years 1987 and 1988.

3. The 503 Certified Development Company Program

As one of the federal government's primary economic development programs, 503 represents the classic partnership among federal, state and local governments and the private sector in making

"bricks and mortar" financing available to healthy small businesses for planned expansion and job creation. Section 503 authorizes the SBA to guarantee debentures issued by certified development companies (CDC's) to finance the acquisition of land, plants, and equipment for small business expansion. With a commitment for a substantial number of new jobs resulting from the expansion before any loan is made, the SBA guarantee, up to 40 percent of the project costs, with 50 percent coming from a private sector lender, and 10 percent from the small business itself.

541 CDC's have been certified, funding over 2300 projects, creating or retaining nearly 100,000 jobs. In every quarter since the program's inception, more and more jobs have been created, and the federal commitment per job has declined. This is a federal program that works, and works well.

In establishing the 503 program, Congress made CDC's an active partner in local economic development. In order to become a CDC, and organization must demonstrate broad community support and professional staff resources. Its Board of Directors must have a mix of representatives from the public and private sectors such as local government, private lending institutions, and community and business organizations. The CDC must have a full time staff which is able to originate, package, close, monitor and service loans. It also must be able to provide legal, accounting and management assistance. Each CDC is required to make at least one 503 loan a year in order to remain certified, and all loans must be approved by the members of the board of directors.

The 503 program has had nationwide impact in cities and rural areas alike, greater than its size would initially suggest. Small firms suffer from an inability to access long-term capital markets, and as J. Martin Orr, President of the National Association of Development Companies (NADCO), and Executive Vice-President of the Kansas City Corporation for Industrial Development stated:

> . . . The 503 program permits a community to initiate its own economic development activities to overcome this structural disfunction in our economy. Also recognizing scarcity of public resources, the 503 program is designed to supplement, not supplant, private sector financing from conventional institutions.

Mr. Orr described the program's mission and accomplishments in the following terms:

> The rationale of SBA 503 and SBIC programs is to fill the long-term capital gap. The resulting product is the public purpose—the creation of jobs and tax revenues for our local communities. The SBA programs serve another purpose. The programs increase the amount of capital available to many of our country's local communities. Rural banks and small urban banks cannot meet all local needs. Thus, the SBA programs serve a further public purpose: to increase the overall level of capital in local communities . . . since its inception, the 503 program has issued $703,735,000 worth of debentures, which in turn leveraged more than $1 million in private capital to create

> nearly 100,000 job opportunities throughout the country, at an average federal investment of $7,394.00 per job.

Many state and local public officials believe economic development in their areas would come to a virtual halt without SBA programs like Section 503. Mayor J. Michael Houston of Springfield, Ill., representing the United States Conference of Mayors, gave his reaction to the Administration's proposed elimination of the SBA, and with it, the 503 program. He said,

> It is important to review, just how essential the SBA's financing programs have been to economic development efforts in American's cities. The two are closely linked. Eliminating the SBA at this time would send a shock wave rippling through America's economy which would destroy the most successful public-private partnership which has ever been created. I am speaking of the SBA 503 program . . . Across America, the 503 program has proven to be an unqualified success. Through it, the SBA has emerged as a full and equal partner with our financial institutions in encouraging economic development. That partnership has helped the SBA shed its image as the lender of last resort.

Mayor Houston provided this detailed outline of the program's successes in his home state, and related them to cities across the nation:

> To date, there have been more than 3,800 SBA 503 loans approved totalling $764 million. Those "public" dollars were leveraged with more than 1.3 billion "private" dollars for a combined economic impact exceeding $2.1 billion . . . I am pleased to say that the 503 program has been responsible for 2,700 new jobs in Illinois resulting from one hundred twenty 503 loans. We have leveraged 27 million "public" dollars with 41 million "private" dollars for a total of $68 million in economic development—and that economic development has been across the board, from our largest city, Chicago, to some of our smallest villages and townships. Our successes are not unusual and have been matched in cities across the country. Cleveland, Jacksonville, Kansas City, Portsmouth, St. Paul, Wichita . . . are just a few of the other communities which have also formed an important partnership with the Small Business Administration.

In giving the Conference of Mayors' unequivocal endorsement of S. 408, Mayor Houston expressed the views of many public officials:

> . . . The decision that Congress reaches this session regarding the future of the Small Business Administration will be felt in every state in our nation. Any action to eliminate the SBA would serve to slam the door on long-term financing for small and medium-sized businesses, just when those businesses can least afford for that door to be closed.

Ralph A. Johnson, Mayor of Warner Robins, Georgia, testified on behalf of the Development Corporation of Middle Georgia and the

National Association of Development Organizations (NADO), and explained the importance of the 503 program in his region:

> . . . SBS's Section 503 Certified Development Company program is the small business program that has been most important to middle Georgia and to hundreds of small cities and rural areas around the country, stated Mayor Johnson . . . I am here today on behalf of the local governments and the businesses in our area which have utilized and benefitted from the innovative approaches to economic development financing that the 503 program has made possible . . . On behalf of NADO and the Middle Georgia Development Corporation, I urge this committee to enact legislation to reauthorize the Small Business Administration for three years, and to oppose any effort to eliminate the agency or its funding.

The Mayor described the credit void affecting small businesses in rural areas, and how the 503 program fills that niche:

> . . . As important as small business is to rural county and municipal governments, there is relatively little these local governments can do on their own to help indigenous small firms meet their needs for capital and credit. This is an especially serious handicap in economically underdeveloped rural areas that have limited local access to private credit markets. Many small rural banks are in financial trouble and more distant urban banks are extremely reluctant to lend to small business not located within their immediate areas . . . The SBA 503 program and others help provide credit which would not otherwise be available to small businesses in rural and small towns. According to a letter our development company received from President Reagan, "In recent years, new and existing small companies have provided an astonishing 80 percent of new jobs in the private sector and 24 times as much innovation as larger businesses." We think it is only fair that entrepreneurs in all parts of our country should continue to have access to credit and assistance which will encourage them to grow and expand.

OMB contends that the SBA merely doles out subsidies to weak firms that are not credit worthy. The 503 program disproves this theory—it leverages market-rate debentures only to healthy companies for planned expansion. Which would be unable to expand or create jobs without the assistance of this program. Mayor Johnson stated:

> The OMB perspective is that government intervention such as those represented by SBA programs is a wasteful distortion of otherwise efficient market forces. We do not view the SBA 503 program as a subsidy or as "Federal intervention" in the marketplace. We believe it is an important tool which can be used as a part of local economic development strategies in rural and small metropolitan areas like middle Georgia.

Mr. Orr shed light on this point by explaining that those administering the 503 program make loans to qualified firms,

> . . . that have a track record and opportunity for growth. Our local communities support us because they know we will create jobs and tax revenues for them—long-term jobs and tax revenues. Mr. Stockman has implied that SBA concentrates on weak and failing businesses. The opposite is true for us. From some unknown source, he says there is a ten percent loss ratio for SBA 503. The actual loss ratio is only 1.6 percent—far offset by new taxes generated by the expansion of the majority of small businesses which we assist.

Mayor Houston used his city, as an example of the quality of loans being guaranteed under the program:

> . . . of the eight 503 loans approved since May, 1982 no loan has ever been in default. In fact, not one of our eight projects has even made a single late payment—most banks would envy a loan portfolio that strong.

Cynthia L. Straus, President of Chem-Plate Industries, Inc., Chicago, Ill., received two SBA-guaranteed loans, the first providing start-up capital, the second for expansion purposes. Her story illustrates a fact, well-stated by Mayor Johnson, that "the public investment in small business development is tiny compared to tax revenues generated from the expansion of businesses and new employment. The 503 program is an example of sound investment by both private and public sectors in economic development."

Ms. Straus explained, the expansion loan she sought, and noted that "the only source of long-term funds was, once again, the SBA." She provided the following details of her experience:

> Our bank contacted Greater Metropolitan Development Corporation (GMCDC) and together they put together a 503 loan package for my company. Administratively, the SBA did no work other than to approve the package at a loan committee meeting. We were able to receive 15-year financing for a large portion of the $1,200,000 needed to purchase capital equipment which will add up to 15 new jobs and increase our sales from $4,000,000/year to $7,000,000/year. This increase in sales and personnel will once again generate more than enough revenues in the forms of payroll and corporate income taxes to repay the government for its time and effort. Without the 503 loan program Chem-Plate would not have been able to afford to attempt this major expansion. We had no other competitive, long-term source of funds available.

The 503 program is an essential component in the current efforts to revitalize America's cities and rural communities. Mayor Houston made a powerful case for continuing the 503 program in his testimony:

> You've probably heard about the success stories of this program. There have been many. The program also represents one of the most flexible financing programs avail-

> able. In my community alone, the 503 program has been instrumental in financing small businesses involved in agriculture, retailing, manufacturing, construction and the service industry. Springfield's eight approved projects and two pending business expansions will mean 200 new jobs for my community—jobs which would not have occurred without the Small Business Administration. Currently, my office and other city offices across our country work hand-in-hand with the SBA putting together successful development projects. These are not weak projects which are doomed to fail—as many people characterize SBA loans. Instead, they are strong projects destined to succeed, and to create new jobs . . . It is evident that the SBA and its financing programs have been responsible for creating thousands of jobs within our cities today that might not have been created for several years—if ever. Eliminating the SBA now would deal a significant blow to America's small businesses. It would also have a devastating effect on the continued economic recovery and revitalization of our cities.

The 503 program has proven to be one of the SBA's great successes. Few government programs have contributed so tangibly to our nation's economic recovery. 503 has helped to revitalize our cities and rural areas by introducing new capital into local economies, boosting tax rolls, creating substantial numbers of new jobs, and increasing business ownership and expansion opportunities. The powerful, positive impact of this program has been felt across America, clearly showing that the 503 program merits continuance. With this in mind, the Committee, through S. 408, freezes the 503 program in fiscal year 1986 at its fiscal year 1985 level of $450 million, and adjusts program levels for inflation in fiscal years 1987 and 1988.

4. Direct loan program reductions

The Committee is recommending the elimination of the SBA's direct loan program, with the exception of assistance to MESBIC's, the handicapped, and veterans. As noted earlier, MESBIC's represent a unique public-private sector partnership which assists minority entrepreneurs. Loans to the handicapped assist one of the most disadvantaged groups, and loans to Vietnam-era and disabled veterans assist a highly deserving segment of our society, often required extra help to adapt and succeed as they re-enter America's mainstream. Before discussing the Committee's plan to eliminate the bulk of the SBA's direct loans, the accomplishments of the Handicapped Assistance Loan (HAL) Program, retained by S. 408, should be noted.

Dr. John F. Jonas, Jr., President of the Cerebral Palsy Research (CPR) Foundation of Kansas, and founder of Center Industries Corporation, testified before the Committee. Dr. Jonas described the essential role served by the HAL Loan Program:

> I would like to state that the $350,000 SBA HAL Loan Program, approved in August 1974, acted as a cornerstone funding base in the development of this unique industry.

> Approximately $1 million was required to provide the necessary capital for land, buildings, and operational budget to launch this industry designed to employ severely physically [disabled] persons in a dignified mainstream industrial environment.

Dr. Jonas summarized the economic achievements of Center Industries, which employs 112 individuals, 80 percent of whom are disabled:

> A review of the total wages and taxes paid during the past five years from calendar year 1980 through 1984, is outlined in Addendum 1. The summary shows that total wages over five years is an amount of $3,696,729. Federal income taxes paid by employees were $497,250. State income taxes paid by employees were $85,827. Social Security paid by employees were $236,722 for a total of $819,800.
>
> Five major contractors of Center Industries include the Boeing Company, the State of Kansas, NCR, S/V Tool and AT&T.

Dr. Jonas noted that projected sales for Center Industries in 1985 will be $2 million, a clear success story for the HAL Program, illustrating precisely why it should be maintained.

The recommendation to eliminate the bulk of SBA's direct loan program is consistent with action taken by this Committee and the Senate last Congress when it passed the SBA authorization bill (S. 2408), which included an identical provision. It was the belief of the Chairman, Senator Weicker and then Ranking Member, Senator Nunn, which was later endorsed by a majority of the Committee, that the time had come to fundamentally change the lending activities of the SBA.

The Committee began to address the funding constraints in 1981 through changes enacted as part of the Reconciliation Act of that year. Specifically, the Committee initiated, and the Congress approved, a 50 percent reduction in the total program levels for direct loans at the SBA and the elimination of the interest subsidy that those loans enjoyed in prior law.

In part due to statutory changes, the number and average size of the loans have also decreased. In fiscal year 1984, the agency made less than half the loans, at half the dollar amount, than it made prior to the decrease in this program level: 2,295 loans for a total of $184.1 million. In the Committee view, it is misleading to tell prospective borrowers that a direct loan program exists when, in fact, so few dollars are available to so few businesses for loan-making purposes.

John E. Sloan, the President and Chief Executive Officer of the National Federation of Independent Business, testified before the Committee and strongly recommended both maintaining SBA as an independent agency and keeping the Agency's guaranteed loan program funded at its current level. He had this to say about the direct loan program:

> We propose to eliminate SBA's direct lending programs. Historically plagued by high default rates and a very high

cost of delivery, the direct lending programs at SBA are a luxury we can no longer afford. Less than 3000 loans are made each year with direct funding, and their elimination will not serverely damage the small business community.

The administrative function of making loans is also costly and highly labor-intensive. SBA estimates that it could reduce its personnel level by 65 positions and save $2.1 million in administrative costs through elimination of the direct loan program. As the Committee noted earlier, the SBA has neither sufficient personnel, nor the necessary Congressional appropriations, to effectively implement such a program.

SBA Administrator James Sanders, in testifying before the Committee, has consistently advocated the elimination of this program for similar reasons to those cited above. In addition, it has been his advice, and the opinion of this Committee, that the SBA's limited resources can be utilized more effectively and efficiently by being directed into the agency's other financial assistance programs which leverage private sectors resources and expertise.

C. Programs Promoting Small Business Competition in the Marketplace

1. Background

The salaries and expenses portion of the SBA budget provides funding for the agency's personnel and administrative costs, as well as all of its non-lending activities of the agency. The Committee, since the late 1970's, has urged the SBA to place a greater emphasis on its procurement assistance, training and counseling, advocacy, economic research, and special outreach programs. This increased activity has been achieved with less staff at the SBA and by relying more on the private sector for delivery of its services. Since 1981, the number of full time employees has been cut from 5,915 to 4,900, a reduction of seventeen percent. Again, this reduction has occurred during a period when the actual workload of the agency has increased.

The Committee is pleased with the reforms that Administrator Sanders has initiated and the increased productivity by SBA employees.

The following chart prepared by the SBA documents how the 4,900 SBA personnel are allocated by activity and their accomplishments in fiscal year 1984:

Activity	Full-time employees	1984 accomplishments
Procurement assistance	298	Approximately $15 billion in set-aside awards: savings of $324 million. Spare parts savings of $151 million. Issued 525 certificates of competency for $19 million in savings. 120,000 small businesses in Procurement Automated Source Selection for savings of $30 million. Over $20 billion in subcontracts to small businesses.
Management assistance	353	Trained 301,102 people. Counseled 208,857 people. Distributed 12.5 million copies of publications.

Activity	Full-time employees	1984 accomplishments
Finance and investment:		
Financing	489	21,274 loans for $3.0 billion.
Portfolio management	1,215	Services a portfolio of 400,000 loans totaling $17.3 billion.
Special guarantee and investment	90	7,262 surety bonds for $571 million. 3 pollution bonds for $11 million. 187 investment company loans for $200 million.
Disaster assistance	414	14,128 loans for $314.2 million.
Innovation, research and technology	9	$111 million in small business innovation research awards.
Minority small business/capital ownership development.	318	5,005 8(a) contracts for $2.7 billion.
Advocacy	59	Submitted 49 comments on regulatory proposals for executive agencies. Maintains small business data base. Prepares "The State of Small Business" report. Mans the small business answer desk.
Special programs	45	34,600 veterans counseled. 10–15,000 Vietnam-era veterans participated in training seminars. 468 international trade conferences. 21 national women's conferences.
Management and administration	421	All financial and administrative accounting functions and systems. Payroll and personnel systems. All loan and administration processing. Annual collections over $1.3 billion. Loan accounting data base of 1.5 million loans. Implementation of administrative reforms suggested by the Grace Commission and OMB.
General counsel	331	Over 4,000 litigation claims.
Inspector General	129	Conducted 1,117 audits for $3.3 billion. Closed 510 investigation cases. Recovered $87 million in Federal money.
Hearings and appeals	22	1,000 freedom of information requests. 263 cases and 3 court hearings.
Public communications	26	Information to the public and media. Graphics, design and printing support. Communications policy.
Congressional and legislative affairs	13	Coordinates all congressional inquiries. Attends and reports on congressional hearings.
Executive Director and field administration	668	Direction and support to the 118 field locations.
Total	4,900	

S. 408 reduces the agency's salaries and expense account in fiscal year 1986 from $234 million to $210 million in budget authority.

2. Management assistance programs

The SBA has established an effective delivery system through retired volunteers, universities, and the private sector, to provide counseling and training to small business owners and operators. The Committee believes this system should be funded at adequate levels.

The SBA's management assistance programs utilize private sector resources to meet the wide-ranging needs of the small business community. Clearly, all small businesses do not need the SBA's counseling and training programs. However, as documented by a following detailed chart, over 3 million businesses have sought and obtained SBA's management help over the last six years.

3 MILLION INDIVIDUALS RECEIVED SBA MANAGEMENT ASSISTANCE

[1979 to 1984]

State	Total trained 1979 to 1984	Total counseled 1979 to 1984	Total
Alabama	27,221	16,825	44,046
Alaska	21,544	4,423	25,967
Arizona	39,014	15,914	54,928
Arkansas	28,145	17,032	45,177
California	182,770	108,071	290,841
Colorado	42,929	19,809	62,738
Connecticut	43,187	20,423	63,610
Delaware	3,170	2,108	5,278
District of Columbia	42,552	28,862	71,414
Florida	111,641	89,299	20,094
Georgia	101,465	26,932	128,397
Hawaii	10,108	3,957	14,065
Idaho	7,668	6,358	14,026
Illinois	83,173	47,840	131,013
Indiana	29,863	14,866	44,729
Iowa	45,901	27,091	72,992
Kansas	38,339	11,185	49,524
Kentucky	17,532	15,895	33,427
Louisiana	20,421	15,783	36,204
Maine	26,232	17,459	43,691
Maryland	18,590	14,857	33,447
Massachusetts	75,262	42,105	117,367
Michigan	44,150	20,244	64,394
Minnesota	56,903	19,626	76,529
Mississippi	15,047	10,435	25,482
Missouri	56,093	28,415	84,508
Montana	17,022	3,793	20,815
Nebraska	44,620	18,871	63,491
Nevada	12,992	3,408	16,400
New Hampshire	13,265	9,362	22,627
New Jersey	64,235	25,122	89,357
New Mexico	26,307	10,892	37,199
New York	131,523	61,411	192,934
North Carolina	22,679	14,225	36,904
North Dakota	18,347	2,884	21,231
Ohio	93,095	37,710	130,805
Oklahoma	24,796	11,522	36,318
Oregon	38,339	39,189	77,528
Pennsylvania	84,868	51,215	136,083
Rhode Island	13,784	11,407	25,191
South Carolina	17,419	15,166	32,585
South Dakota	18,342	5,158	23,500
Tennessee	15,534	16,231	31,765
Texas	109,794	69,761	179,555
Utah	19,944	6,430	26,374
Vermont	9,923	5,006	14,929
Virginia	27,712	14,256	41,968
Washington	57,131	52,322	109,453
West Virginia	19,349	7,998	27,347
Wisconsin	82,407	29,838	112,245
Wyoming	9,204	2,136	11,340
Total	2,181,551	1,171,127	3,171,832

In P.L. 98-362, the Congress permitted the SBA, for the first time, to have for-profit companies cosponsor training sessions. This new law will enhance the SBA's training capacity, especially in the high technology area such as computer and communications. The

SBA anticipates that this change in law will double the number of people assisted through training seminars.

Many entrepreneurs, especially those starting a business, cannot afford a battery of accountants, lawyers, and market analysts. The Service Corps of Retired Executive (SCORE), Small Business Institute (SBI), and Small Business Development Center (SBDC) programs provide this type of on-site counseling to small firms at little or no cost to the small business. Often, these counseling sessions prevent business failures by instructing small business owners on how to develop essential management tools such as business plans, market strategies, and inventory control programs.

Paul Dunn, president of the Small Business Institute Association further elaborated:

> The most common causes of failures among small businesses are management failures according to Dun and Bradstreet. To reduce those failures, it is necessary to provide the budding small business person or the small business person who owns a growing business with some type of management and/or technical assistance through either the private or public sector. Since most beginning small businesses are strapped for funds to maintain a going concern and grow in an orderly way, the management assistance programs of the SBA have filled and continue to fill a void that was not and is not being filled and/or where the services were not or are not locally available in the private sector.

The Administration proposes to eliminate the management assistance programs at the SBA, with the exception of the SCORE and ACE programs, which would be transferred to the Commerce Department. Specifically, the SBI, SBDC and other management assistance programs would be abolished under the Administration's proposal. The Administration contends that those counseling functions would be provided by the private sector. However, the Administration ignores the prohibitive cost of these services to entrepreneurs. With a staff of 350 dispersed throughout the country and a budget of $45 million, the SBA's management assistance programs have provided counseling and training to over a half million business operators in fiscal year 1984 alone, at little or no cost.

Over half of the $45 million budget is directed to the SBDCs, located in 37 states. Under this program, each federal dollar is matched by state, local and private funds. The following chart lists the level of federal funding allocated to each SBDC in fiscal year 1984.

SBDC Federal funding year by State—fiscal year 1984

SBDC:	*Amount*
Maine	$341,685
Massachusetts	927,326
Rhode Island	237,931
Connecticut	459,636
Vermont	200,000
New Hampshire	133,825
New Jersey	332,200
New York	300,000
Pennsylvania	2,353,810

West Virginia	646,362
District of Columbia	481,001
Delaware	144,729
Georgia	1,480,193
Florida	1,676,207
South Carolina	528,854
Alabama	878,714
Mississippi	682,060
Kentucky	876,695
Tennessee	213,800
North Carolina	264,160
Wisconsin	1,615,500
Minnesota	597,026
Michigan	1,000,000
Illinois	402,450
Arkansas	608,343
Louisiana	459,700
Texas:	
Arlington	100,000
Houston	253,175
Oklahoma	200,000
Missouri	559,700
Nebraska	501,018
Iowa	562,506
Kansas	260,830
Utah	413,057
Washington	667,851
Oregon	474,700
Total	21,835,044

In the Committee's judgment, these essential services would be denied to hundreds of thousands of small businesses if the Administration's plan is adopted. Accordingly, S. 408 maintains funding for the SBA's current management assistance network over the next three fiscal years.

3. TARGETED ASSISTANCE: SBA'S SPECIAL PROGRAMS

The Administration's proposal calls for the elimination of most of the SBA's "Special Programs". The justification for terminating these Special Programs is that they "duplicate private sector activities as well as those being transferred to the Department of Commerce." This is clearly not the case, as demonstrated by two Special Program offices recommended for termination, the Office of Women's Business Ownership and the Office of Veterans Affairs.

a. Office of Women's Business Ownership

The Office of Women's Business Ownership (OWBO) develops programs for and monitors all federal activities relating to women's business ownership. This office has implemented the National Initiative Program on Women's Business Ownership, created by the President on June 23, 1983. OWBO supports the President's Advisory Committee on Women's Business Ownership, established by Executive Order 12426. This Presidential Committee, composed of fifteen business leaders representing various industries, is designed to gain private sector support for activities to assist women business owners. OWBO provides staff support to the Interagency Committee on Women's Business Enterprise (IACWBE), created pursuant to Executive Order 12138. IACWBE is composed of high level executive branch officials, and is charged by the Executive

Order with promoting coordinated Governmental agency efforts that will enhance opportunities for women business owners. In October 1984, SBA's Office of Women's Business Ownership published in a handbook entitled, "Women Business Owners: Selling to the Federal Government," which was prepared under the auspices of the IACWBE.

Additionally, OWBO was charged with planning and conducting twenty-one National Initiative Conferences held throughout the country, between June and October 1984. Approximately 21,000 women benefitted directly from participation in these conference, which were jointly sponsored by the SBA and the private sector. They offered high quality training and networking opportunities. The conference workshops utilized a two-track approach, one for entry-level businesses and one for growth businesses.

Twenty-one Women's Business Ownership Conferences were held across the nation in 1983–84:

Date	Location	Attendance
October 1983	Somerset, NJ	1,200
October 1983	Los Angeles, CA	1,000
February 1984	Atlanta, GA	1,400
March 1984	Washington, DC	500
March 1984	San Francisco, CA	400
April 1984	New York, NY	2,500
May 1984	Des Moines, IA	1,000
May 1984	Pittsburgh, PA	500
June 1984	Orlando, FL	1,100
June 1984	Dallas, TX	650
June 1984	San Diego, CA	1,100
July 1984	Kansas City, KS	1,200
August 1984	Boston, MA	1,275
August 1984	Nashville, TN	1,050
September 1984	Houston, TX	1,200
September 1984	St. Paul, MN	1,000
September 1984	Indianapolis, IN	1,100
October 1984	Philadelphia, PA	1,100
October 1984	Harford, CT	975
October 1984	Portland, OR	1,250

b. Office of Veterans Affairs

There are more than 30 million veterans in the United States. It is estimated that approximately 40% are in the age groups most likely to be involved in new business starts. The SBA's office of Veterans Affairs has sought to assist these veterans in their efforts to become business owners. The Veterans Administration does not have an office which duplicates the functions of the SBA's Office of Veterans Affairs. The Committee notes that the Office of Veterans Affairs, in conjunction with the national veteran service organizations and private sector resources form a network that effectively addresses the needs of veterans seeking to start or expand a business.

The Committee received testimony from Richard F. Weidman on behalf of the Vietnam Veterans of America (VVA), in which he complimented the SBA's management assistance outreach to veterans:

> In fiscal year 1984 approximately one hundred thousand (100,000) veterans received management assistance training and counselling services under the aegis of the Small Business Administration. Over 15,000 veterans participated in 30 special "Veterans Business Training and Networking Conferences" held at sites across the country. This management assistance and training is in fact the heart of the matter for most Vietnam and disabled veteran entrepreneurs or would be entrepreneurs. VVA believes that most small businesses fail due to poor management, and that, if afforded the proper opportunity to equip themselves with vital business skills, veterans have the drive and tenacity to succeed in small business in great numbers. Specifically, we are speaking of "hands on" training in how to write and use a business plan, variable cash flow analysis, a marketing plan, and other vital business skills.

Mr. Weidman went on to say:

> Mr. Chairman, although Vietnam Veterans of America feels strongly that Management Assistance and Training is central to what SBA can do and is doing for our nation's veterans, we by no means wish to diminish the importance of direct and guaranteed loans and of the Surety Bond Guarantee programs, among others.

This is yet another example of the public-private partnership fostered by SBA which the Committee strongly believes is worthy of being preserved. The fiscal year 1985 budget for the Veterans Office was slightly over $1 million. The Committee expects at least this level of funding for this important outreach activity during each of the next three fiscal years.

4. PROCUREMENT ASSISTANCE PROGRAMS

Increased participation by small businesses in the federal procurement process benefits small business firms by providing them with an important new source of business at the same time substantial benefits to the Government. The participation of these new small business competitors helps lower costs, maintain quality, and broaden the industrial base. Having a large pool of qualified suppliers readily available to meet the increased demands of a national emergency situation is especially important to the Department of Defense.

The Administration's proposal calls for the transfer of the SBA's Procurement and Technical Assistance Program and its Minority Small Business/Capital Ownership Development Program to the Department of Commerce. At Commerce, these programs would be combined with that Department's existing Minority Business Development Administration, to form a new Enterprise Development and Opportunity Administration. The new Enterprise Development and Opportunity Administration would join a diverse departmental "holding company" that already encompasses such disparate components as the National Bureau of Standards, the Bureau of the Census, the Patent and Trademark Office, the U.S. Travel and

Tourism Administration, and National Oceanic and Atmospheric Administration.

The Committee firmly believes that SBA's Procurement Assistance Program would be seriously affected by the loss of emphasis and identity that would come from the Administration's proposed transfer of the program to the Department of Commerce. Furthermore, SBA's decentralized office structure allows procurement specialists to interact directly with small contractors. Commerce Department's 10 regional offices do not have this capability.

The Committee finds that the SBA has fulfilled its legislatively mandated mission of assisting small businesses to compete within a federal procurement market. The record demonstrates that these SBA procurement assistance programs are helping small businesses to enter the federal market thereby producing substantial cost savings to the government.

D. Advocacy

The SBA Administrator serves a critical role as the voice of small business within the Administration. He is assisted in this role by the SBA's Chief Counsel for Advocacy, and its Office of Advocacy, established in 1976.

The Committee was pleased to learn that James Sanders was appointed to be a member of the Cabinet Council on Commerce and Trade. From that position, Mr. Sanders is able to effectively represent small business interests at the cabinet level. The SBA Administrator was invited to participate on this council because he is the head of an independent agency representing the nation's 14 million small businesses.

The Administration contends that the small business voice will remain strong when it transfers SBA's advocacy function to the Department of Commerce. In the Committee's judgment, such a move would muffle the voice of small business and diminish its importance within the executive branch.

John Sloan, President of the National Federation of Independent Business (NFIB) stated his opposition to such a transfer:

> Burying Advocacy, or any other SBA program, within the bowels of Commerce will neither enhance its effectiveness nor satisfy small business' need to have an independent voice within the government. The independence of the advocate is critical to the success of the program.

In his testimony before the Committee, Brad Roller, President of Small Business United (SBU), stressed the importance of the Administrator and Chief Counsel for Advocacy, in advocating small business concerns at the federal level. He staunchly opposed the transfer of Advocacy to Commerce:

> The Administrator and Chief Counsel for Advocacy are indispensable to the nation's 14 million small businesses as they are the only two people who can assure that small business' concerns are addressed by executive branch policy decisions. Transferring the SBA advocacy function to the Commerce Department is unacceptable. We find it hard to believe that in a cabinet council meeting an Under

> Secretary of Commerce for small business will speak freely and forcefully when the Secretary of Commerce is also in that meeting and holds a different viewpoint. In short, transferring the advocacy function to the Commerce Department means burying it.

Walter E. Galanty, Jr., Chairman of the Small Business Legislative Council, supported the views expressed by the SBU.

> The authority and independence that Congress vested in the Office of Chief Counsel for Advocacy has proved critical in what that office has accomplished on behalf of small business in the Executive Branch. It allows small business to participate in national policy decisions that affect it, a prerogative it would not otherwise enjoy. It is imperative that small business remain that lifeline.
>
> It has been suggested that these advocacy functions be retained and transferred to the Department of Commerce. We do not believe for one minute this transfer will result in the retaining of even the smaller fraction of the influence the SBA now has in shaping the future of small business.

Under the Administration's plan, small business would be folded into the Commerce Department, an agency oriented to big business and international trade. The Administrator of this new office would have to compete for the attention of the Secretary of Commerce with dozen of bureaucrats within the agency. Today, the Administrator of SBA sits across the table with the Secretary of Commerce at cabinet Council meetings.

The small business sector is too important to this economy to be reduced to second class status. The Committee believes the agency and the Office of Advocacy should be strengthened and enhanced.

E. Disaster Loan Program

1. PHYSICAL DISASTER LOANS

Through its physical disaster loan program, the SBA provides timely and needed assistance to business and homeowners who are victims of physical disasters. Since 1953, the SBA has been the principal agency in the federal government furnishing financial assistance to businesses and individuals located in areas which have been declared a disaster by the President or the SBA Administrator. Under this program, the SBA makes loans at favorable terms to property owners to cover uninsured losses resulting from natural disasters such as floods, hurricanes, tornados, earthquakes and other catastrophes. The SBA has quickly and efficiently provided essential aid and financial resources to hundreds of thousands of businesses and homeowners with no other place to turn. Organized to move quickly in a "strikeforce" type operation, the SBA has established four regional offices, which are responsible for all disaster lending activity throughout the country. These offices are staffed with full-time, trained professionals whose only job is to respond to disasters. This assistance permits individual businesses and homeowners to get back on their feet quickly, and providing

an essential service, not available elsewhere, at a critical time in the lives of these communities.

If adopted, the Administration's proposal would reverse a long standing policy of federal assistance to a community and individuals devastated by natural calamities. Appendix I details how the $550 million of disaster loans were dispensed by state over the past two fiscal years.

2. ELIMINATION OF NON-PHYSICAL DISASTER LOANS

P.L. 98-270, over the objection of Senator Weicker, restored at a $100 million level the non-physical disaster program, previously zero-funded in 1981.

In addition, P.L. 98-270 created two new programs which were made eligible for funding under the non-physical disaster loan program. One program permitted assistance to businesses harmed as a result of the government's Payment-in-Kind (PIK) program; the other permitted assistance to businesses injured as a result of the Mexican government's devaluation of the Peso. S. 408 would eliminate these programs. In response to questions by Small Business Committee, the SBA Administrator, James C. Sanders stated that these programs were "wasteful" and a drain on the Government's budget. Mr. Sanders recommended that this program again be eliminated. John Sloan, President and Chief Executive Officer of NFIB, concurred with the Administrator's assessment:

> In today's climate of 200 billion dollar deficits, we simply cannot afford to spend money we don't have to help businesses hurt by electrical fires in telephone trunk lines, peso devaluation, or not enough snow. Business interruption insurance is available to cover these types of situations; this is one program we can easily sacrifice.

By eliminating these non-physical disaster programs, S. 408 would achieve savings of $346 million in budget authority and $189 million in outlays over a three year period.

F. Surety Bond Guarantee Program

Small business contractors and subcontractors are often required to furnish surety bonds in order to obtain public, and sometimes private, construction contracts. Through its Surety Bond Guarantee Program, the SBA assists qualified small business contractors by extending a guarantee to a surety of up to 90 percent against loss in order to make bonding more easily obtainable. Bid bonds, as well as payment and/or performance bonds, may be guaranteed on contracts of up to $1,000,000. The SBA may guarantee up to 90 percent of loss on bonds less than $250,000 and up to 80 percent loss on bonds from $250,000 to $1,000,000.

Since its inception in 1971, this program has guaranteed over 166,000 surety bonds, permitting the award of over $12 billion in contracts to small businesses. Prior to its enactment small and minority small business contractors, with limited track records and resources, found it difficult, if not impossible, to bid on construction contracts requiring surety bonds. With the assistance of the SBA Surety Bond Guarantee Program, small businesses are now able to

obtain the surety bonding required to bid on almost all federally funded and private construction contracts.

In testimony submitted to the Small Business Committee, John F. Magnotti, Jr., Executive Vice President of American Surety Association stated:

> We believe that the administration is making a grave error in eliminating the Small Business Administration and more particularly in proposing the elimination of the Surety Bond Guarantee program. As taxpayers we are sensitive to the burgeoning cost of government and the potential for increased taxes. However, we feel just as strongly that the Surety Bond Guarantee program is absolutely necessary to the survival of thousands of small contractors across the United States. Further, instead of being a burden to the taxpayer, the Surety Bond Guarantee program saves the government millions of dollars each year.

Mr. Magnotti, and Mountie Bedford, President of UMB Underwriters, Inc., who wrote to this Committee in opposition to the Administration's proposal to terminate the program, both agreed that this program does not cost the federal government and taxpayers money but, in fact, it saves the government money. Both cited studies prepared by the SBA, which examined the cost of the program from 1971 through 1984. Magnotti stated:

> It can be conclusively proved that the program makes a positive financial contribution to the government. At the national level, the estimate of public savings from the program from its inception in 1971 through 1984 is estimated to be approximately $917,739,400. An analysis was made in 1977 of all bonded nonnegotiated contracts guaranteed by the Small Business Administration to project the difference between the contract award prices and the bids of the second lowest bidders on publicly financed contracts. The bid differential or "bid spread" represents cost savings to the government as a direct result of the operation of the Surety Bond Guarantee program. The 1977 study showed that 38.7 percent of all Surety Bond Guarantee contracts are publicly financed and awarded through the formally advertised process. For these, the average bid spread was 9.25 percent, meaning that the second lowest bidder's prices was on the average of 9.25 percent higher than the winning low bid. In another study of 1,000 contracts completed in 1985, the bid spread has risen to 11.7 percent. The obvious conclusion is that when the Surety Bond Guarantee program is viewed as a part of a total government effort, the program has not only been self-sustaining but has provided substantial savings to government at all levels.

In response to a specific inquiry from the Committee concerning the cost of this program, the SBA, after deducting program costs including losses, can identify approximately $504 million in direct savings to the Treasury as a result of this program based on the

differential between the bid price of small business participant and the next low bidder.

Accordingly the Committee has recommended a program level of $1.1 billion, for this program in fiscal year 1986, the same as in fiscal year 1985. This recommendation results in a cost of only $12 million in budget authority to cover losses.

G. Pollution Control Bond Program

In 1976 Congress authorized the SBA to guarantee 100 percent of the payments due from eligible small businesses under qualified contracts for the planning, design, financing or installation of pollution control facilities or equipment, which have been mandated by governmental pollution control requlations. Financing of such contracts may be obtained from the proceeds of tax-exempt bonds issued by state or municipal authorities. The SBA cooperates with commercial and investment banks and local and state authorities to make financing available to eligible small business.

The Committee has extensively reviewed the benefits of this program through a number of oversight hearings. Since the 1976 initiative, there have been few losses in the program, and the initial $15 million cpaital contribution to the Pollution Control Bond Revolving fund has more than doubled through fees charged for guarantees and agency investment of idle funds.

Small business owners, bankers, underwriters, and state pollution control financing agencies have attested to the importance of small businesses' continued access to this small but crucial source of guarantee authority. It is sound public and fiscal policy to continue to permit small businesses, which are forced to install nonproductive pollution control equipment, to have access to this important source of capital.

Accordingly, the Committee recommends a program level of $150 million, identical to fiscal year 1985. CBO estimates that there will be no additional budget authority required in order to maintain this program.

III. COMMITTEE AMENDMENTS

S. 408 was modified by three amendments. First, a statutory increase in the borrower's fee in the 7(a) loan guarantee program from 1% to 2% for guaranteed loans whose terms exceed one year; second, a reduction from 90% to 80% for the maximum SBA guarantee for a loan made under the 7(a) guaranteed loan program; and third, a requirement that the SBA use its guarantee authority to the full amount authorized by law, subject only to qualified applications and appropriations acts.

A. Statutory Fee Increase From 1 Percent to 2 Percent

Under its current regulations, the SBA charges a 1% fee for loans guaranteed under the 7(a) guaranteed loan program. Under the amendment adopted by the Committee, this fee would become statutory, and would be increased to 2% for loans whose terms exceed one year. The Committee expects that SBA, in structuring loans, will minimize the impact of this increased fee on borrowers.

The Committee has carefully considered several proposals including the recommendation by NFIB that the fee be raised to 5%, and has reached the conclusion that a fee greater than 2% would have a serious adverse effect on the program. This assessment was buttressed by the SBA, the Independent Bankers Association of America, and the American Bankers Association.

Administrator Sanders responded to the proposal to raise the fee to 5%:

> In our judgment the program would not be adversely affected to a severe extent with an increase to 2 percent. However, we believe there could be serious adverse program implications on the demand side if the increase was to 5 percent. We would need experience factors at 2 percent before being able to assess any greater increases.

The SBA calculated that for a loan of $171,063 (the average size of a loan made under the 7(a) guaranteed loan program) this would add only $24 per month to the cost of the loan made out at an interest rate of 13.25% for a term of 9 years (the average term for a 7(a) guaranteed loan).

In a similar vein, Kenneth A. Guenther, executive vice president of the Independent Bankers Association, strongly opposed increasing this fee from 1% to 5%.

He did conclude, however, that a slight increase in this fee might be advisable:

> It is possible that the guarantee is underpriced at 1%. Because there is no existing market for long-term loans, especially at fixed rates, it is impossible to say what the market-determined price would be. Conversations with several lenders indicate that it is probably in the range of 1 to 2%. Ideally, the value of a guarantee could best be determined by a market process such as following the borrower to bid for a guarantee. But absent such a mechanism, the best way to raise the guarantee fee would be to do so gradually while observing the effect on the market (e.g., raise it from 1 to 2% for a period of time, then raise it again only if it appears that borrowers and lenders have not dropped out of the market, and continue incrementally until a true market value is approached). To raise the fee to 5% all at once seems both unjustifiable and unwise.

John W. McClure, Chairman of the Small Business Credit Committee of the American Bankers Association, submitted testimony to the Small Business Committee in which he addressed this issue as well and recommended that "to help fund program costs, we support a guarantee fee of two percent. However, we think any increase above that percentage would retard bank participation in the program."

B. Reduction of the SBA Percentage of Guarantee Under the 7(a) Loan Program

Currently, the SBA is required by law to guarantee not less than 90% of the amount of a loan not exceeding $100,000 made under the 7(a) guaranteed loan program. For loans over $100,000 the SBA

may not guarantee more than 90% of the face amount of the loan. Under the Committee amendment, for loans under $100,000 the minimum SBA guarantee would be reduced 90% to 80% and for loans over $100,000, the maximum SBA guarantee would be reduced from 90% to 80%.

When asked by the Committee for his assessment of the effect of reducing the percentage of guarantee from 90% to 80% under the 7(a) loan program, the SBA Administrator James C. Sanders responded:

> In our judgment we would still have a viable loan guarantee program if we reduced the percentage of guarantee from 90 percent to 80 percent. There is no question that some lenders would lose interest and drop out of the program if the percentage of guarantee is dropped below 90 percent. Those lenders; in particular, that rely heavily on the secondary market would not find the 80 percent guarantee as attractive as the 90 percent guarantee. At the same time, our experience suggests that the guarantee program would still be regarded by lenders as a valuable tool in their small business lending efforts. We believe that there would be healthy demand and a viable loan guarantee program at the 80 percent guarantee level.

Kenneth A. Guenther, executive vice president of the Independent Bankers Association of America, indicated in a letter to the Committee that his membership would support an effort to move "gradually" toward a lower guarantee but did not believe it advisable to move "exclusively" to a lower guarantee such as a 75% guarantee, which is used in the SBA Preferred Lenders Program. He concluded that:

> In our view, it is premature to move exclusively to a 75% guarantee at this time. As you know, the SBA has been moving steadily in this direction with its pilot Preferred Lenders Program, which recently has gone nationwide. Most if not all Certified Lenders (which makes 90% guaranteed loans) will become Preferred Lenders (which receive a 75% guarantee on loans) through a gradual, orderly process over a period of time. This is appropriate because Certified Lenders have sufficient experience in making a large volume of SBA loans to make the transition to reduced guarantees fairly easily. . . . We support the SBA's current effort to move gradually toward lending with a lower guarantee. That process ought to continue. But it has taken too many years to develop the market for guaranteed loans to its present stage to justify making such an abrupt change now.

Accordingly, for loans under $100,000 the Committee's bill gives the SBA the "option" of lowering its guarantee from 90% to 80%. For loans over $100,000, the SBA's maximum guarantee would be reduced from 90% to 80%. This action is consistent with the Committee's desire to work with the SBA to help ensure quality lending while at the same time providing needed long term financing to

small businesses not available through any other private sector or government lending program.

C. Program Guarantee Authority Amendment

Senator Levin offered, and the Committee adopted, an amendment to provide that the Small Business Administration shall enter into commitments to guarantee loans, debentures and other types of financial assistance in the full amounts provided by law, subject only to the availability of qualified applications, and limitations contained in appropriations acts.

By adoption of this amendment, the Committee specifically prohibits SBA for administratively reducing commitments below guarantee levels established in law. Reductions would be effective only if the Congress subsequently approves, through appropriate action, recommendations for reductions submitted to the proper Committees by the Executive branch.

Under the amendment, the SBA shall continue to enter into commitments to guarantee applications only with applicants that are qualified under the statutory authority establishing such guarantee program and the Administration's implementing rules and regulations. This amendment also provides that the Small Business Administration will enter into commitment to guarantee in the full amounts provided by law, further subject only to limitations contained in appropriation Acts.

The Committee has taken this action to ensure that unilateral administrative reductions will not be made in the SBA's guarantee program levels once enacted by Congress. To allow administrative reductions of SBA loan guarantee authority would negate the priorities this Committee, the Congress and the President have jointly established in law for the Small Business Administration. It would also undermine any actions taken by this Committee to set guarantee program levels for the SBA, and actions of the Appropriations Committees to support these levels.

The Committee recognizes that, in the absence of this amendment, a similar unilateral administrative reduction could be made in the level of guarantee authority established by the Committee and the Congress for the SBA during future fiscal years. Other than the approach adopted here, or individually establishing floors for each of the agency's lending programs, no mechanism is available to this Committee, or Congress, to participate in that critical budgetary decision-making. However, it is not the Committee's intent that SBA be required to enter into commitments where the guarantee authority is not being used because of an absence of applicants, or where the applicants do not meet the threshold eligibility requirements for such guarantee as provided for in law.

This amendment is identical to a provision approved by this Committee last Congress, and incorporated into S. 1323. In addition Congress has enacted into law similar provisions on two separate occasions, most recently in the First Continuing Resolution for fiscal year 1983 (section 154 of P.L. 97-276).

D. SBA Size Standards for Agricultural Enterprises

The Committee is very concerned with the SBA size standard for agricultural enterprises which was implemented last year. At $100,000, this standard is much lower that that used for any other industry, and it excludes virtually all viable family farms in many areas of the country. An amendment was offered by Senators Harkin, Baucus and Bumpers which would have set the size standard for agricultural enterprises at $500,000, but this amendment was withdrawn on assurance by the Chairman that the agency will commence an expedited review of this issue. The Committee directs that the agency immediately begin this review process with a view toward increasing the size standard substantially.

IV. SECTION-BY-SECTION ANALYSIS

SECTION 1

(1) Provides the following program levels for fiscal year 1986:

§(u)(1) $45 million in direct loans, of which:

$20 million is for handicapped.

$25 million is for Vietnam and disabled veterans.

(2) $3,180 million in guaranteed loans, of which:

$5 million is for handicapped.

$60 million is for economic opportunity loans for minorities.

$15 million is for energy loans.

$2,650 million is for general business loans.

$450 million is for 503 economic development loans.

(3) $41 million in direct loans to Minority Enterprise Small Business Investment Companies (MESBIC's) and $250 million in guaranteed debentures for Small Business Investment Companies (SBIC's).

(5) Pollution control equipment contract guarantees not to exceed $150 million.

(6) Authorizes the appropriation of funds to make loans to victims of physical disasters, with a current law cap of $500 million as contained in section 20(t) of the Small Business Act.

§(v) Authorizes $555 million to be appropriated for fiscal year 1986, of which: $333 million is to fund all of the programs in the Business Loan and Investment Fund Account ((u)(1) through (u)(3) *supra.*); $12 million is for the surety bond guarantee program; and $210 million is for salaries and expenses.9

Provides the following program levels for fiscal year 1987:

§(w)(1) $47 million in direct loans, of which:

$21 million is for handicapped.

$26 million is for Vietnam and disabled veterans.

(2) $3,320 million in guaranteed loans, of which:

$5 million is for handicapped.

$63 million is for economic opportunity loans for minorities.

$16 million is for energy loans.

$2,766 million is for general business loans.

$470 million is for 503 economic development loans.

(3) $43 million in direct loans to Minority Enterprise Small Business Investment Companies (MESBIC's) and $261 million in guaranteed debentures for Small Business Investment Companies (SBIC's).

(4) Surety bond guarantees not to exceed $1,164 million.

(5) Pollution control equipment contract guarantees not to exceed $157 million.

(6) Authorizes the appropriation of funds necessary and appropriate to make loans to victims of physical disasters.

§ (x) Authorizes $597.3 million to be appropriated for fiscal year 1986, of which: $368 million is to fund all of the programs in the Business Loan and Investment Fund Account ((w)(1) through (w)(3) *supra.*); $15.5 million is for the surety bond guarantee program; and $213.8 million is for salaries and expenses.

Provides the following program levels for fiscal year 1988:

§ (y)(1) $49 million in direct loans, of which:

$22 million is for handicapped.

$27 million is for Vietnam and disabled veterans.

(2) $3,458 million in guaranteed loans, of which:

$6 million is for handicapped.

$65 million is for economic opportunity loans for minorities.

$16 million is for energy loans.

$2,882 million is for general business loans.

$489 million is for 503 economic development loans.

(3) $45 million in direct loans to Minority Enterprise Small Business Investment Companies (MESBIC's) and $272 million in guaranteed debentures for Small Business Investment Companies (SBIC's).

(4) Surety bond guarantees not to exceed $1,213 million.

(5) Pollution control equipment contract guarantees not to exceed $163 million.

(6) Authorizes the appropriation of funds necessary and appropriate to make loans to victims of physical disasters.

§ (z)(1) Authorizes $619.8 million to be appropriated for fiscal year 1986, of which: $387 million is to fund all of the programs in the Business Loan and Investment Fund Account ((y)(1) through (y)(3) *supra.*); $14.5 million is for the surety bond guarantee program; and $218.3 million is for salaries and expenses.

(2) Eliminates the $100 million funding for the non-physical program for fiscal year 1986.

SECTION 2

Eliminates the non-physical disaster loan programs from the Small Business Act.

SECTION 3

Permits the SBA to reduce its guarantee for loans of less than $100,000 guaranteed under the 7(a) loan program from 90 percent to 80 percent. For loans of $100,000 or more, lowers the maximum guarantee from 90 percent to 80 percent.

SECTION 4

Adds a new section to section 7(a) of the Small Business Act requiring SBA to collect a 2 percent fee for loans of one year or more guaranteed under the 7(a) loan program, and permits the lending institution to pass this fee on to the borrower. SBA by regulation currently imposes a one percent fee.

SECTION 5

Adds a new section to section 20(a) of the Small Business Act to provide that the Small Business Administration shall enter into commitments to guarantee loans, debentures and other types of financial assistance in the full amounts provided by law, subject only to the availability of qualified applications, and limitations contained in appropriations acts.

V. MATTERS TO BE DISCUSSED UNDER SENATE RULES

A. Committee Vote

In compliance with Rule XXVI(7)(B) of the Standing Rules of the Senate, the following roll call votes were recorded:

On the motion to adopt as amended S. 408, a bill to reauthorize funding for the Small Business Administration for fiscal years 1986, 1987, and 1988:

YEAS (16)	NAYS (3)
Nickles	Boschwitz
Rudman [1]	Gorton
D'Amato	Trible
Kasten	
Pressler [1]	
Goldwater [1]	
Bumpers	
Nunn	
Sasser	
Baucus	
Levin	
Dixon	
Boren	
Harkin	
Kerry [1]	
Weicker	

[1] Indicates vote by proxy.

On the motion to adopt the Boschwitz-Gorton Amendment to make further cuts in the Small Business Administration program levels:

YEAS (4)	NAYS (15)
Boschwitz	Rudman [1]
Gorton	D'Amato
Nickles	Kasten
Trible	Pressler [1]
	Goldwater [1]

Bumpers
Nunn
Sasser
Baucus
Levin
Dixon
Boren
Harkin
Kerry [1]
Weicker

[1] Indicates vote by proxy.

B. Regulatory Impact Statement

In compliance with Rule XXVI(11)(b) of the Standing Rules of the Senate, it is the Committee's belief that this bill will have no regulatory or privacy impact on the small business affected by the legislation.

C. Cost of Legislation

In compliance with the Rule XXVI of the Standing Rules of the Senate, the Committees estimates that the cost of the legislation will be equal to the amounts indicated by the Congressional Budget Office in the following letter:

U.S. Congress,
Congressional Budget Office,
Washington, DC, March 29, 1985.

Hon. Lowell P. Weicker, Jr.,
Chairman, Committee on Small Business, U.S. Senate, Russell Senate Office Building, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the attached cost estimate for S. 408, a bill to amend the Small Business Act to provide program levels, salary and expense levels, and authorizations for the Small Business Administration's programs for fiscal years 1986, 1987, and 1988, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,
Sincerely,

James Blum
(For Rudolph G. Penner, Director).

Congressional Budget Office Cost Estimate

1. Bill No.: S. 408.
2. Bill title: A bill to amend the Small Business Act to provide program levels, salary and expense levels, and authorizations for the Small Business Administration's programs for fiscal years 1986, 1987, and 1988, and for other purposes.
3. Bill status: As ordered reported to the Senate Committee on Small Business, March 26, 1985.

4. Bill purpose: S. 408 would establish program levels for fiscal years 1986 through 1988 for the business programs administered by the Small Business Administration (SBA). It would also authorize appropriations for administering and funding these activities.

Beginning in 1986, this legislation would reduce from 90 percent to 80 percent the maximum amount of an SBA guarantee for general business loans. It would also increase the guarantee fee for these loans from 1 percent to 2 percent. Section 5 would require that SBA commit all available funds for guaranteed loans if sufficient qualified borrowers apply.

S. 408 would authorize the appropriation of such sums as may be necessary to operate the disaster loan program for fiscal years 1987 and 1988. It would also eliminate nonphysical disaster loans after fiscal year 1985. These loans are now capped at $100 million in new annual obligations through fiscal year 1986.

5. Estimated cost to the Federal Government: The following table summarizes the total on- and off-budget impact of S. 408, relative to spending levels if no legislation were enacted.

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Total on- and off-budget:					
Authorization level:					
Specified	555	597	620		
Estimated	282	476	553	394	190
Total authorization	837	1,073	1,173	394	190
Estimated outlays	552	1,458	1,684	129	−108

The basis of estimate provides further detail on the budget impact of this bill, and compares spending levels under S. 408 with the CBO baseline projections.

This bill would authorize SBA loan guarantees of $3.4 billion in 1986, $3.6 billion in 1987, and $3.7 billion in 1988. These guarantees represent contingent liabilities of the federal government.

For many government activities, the costs and outlays are identical. For loan programs, however, the costs differ from outlays, and include administrative expenses and loan defaults, offset by fees and interest income. The costs of S. 408 are summarized separately below:

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Estimated costs	309	355	469	605	659

Basis of estimate: S. 408 would authorize the following program levels for the loan programs administered by the SBA:

PROGRAM LEVELS

[By fiscal years, in millions of dollars]

	Direct loans			Guaranteed loans		
	1986	1987	1988	1986	1987	1988
Programs:						
7(a) General business				2,650	2,766	2,882
Handicapped	20	21	22	5	5	6
Economic opportunity				60	63	65
Energy				15	16	16
Development company				450	470	489
Investment company	41	43	45	250	261	272
Veterans	25	26	27			
Total	86	90	94	3,430	3,580	3,730
Surety bond				1,115	1,164	1,213
Pollution control				150	157	163
Disaster	[1] 500	[2] 960	[2] 1,001			

[1] The disaster loan program is already authorized for 1986 at a level of $600 million. This bill would eliminate nonphysical disaster loans, which account for $100 million of the authorization.
[2] Estimate based on historical data.

The authorization levels shown in this estimate include amounts specifically authorized in the bill, estimated payments for loan guarantee defaults, estimated disaster loan appropriations, and estimated Federal Financing Bank (FFB) loans made under investment and development company loan guarantees. The specific authorizations are summarized in the following table.

AUTHORIZATION LEVELS

[By fiscal years, in millions of dollars]

	1986	1987	1988
Salaries and expenses [1]	210	214	218
Business loans and investments	333	368	387
Pollution control [2]			
Surety bond guarantee	12	16	15
Total	555	597	620

[1] The bill also authorizes the transfer of unobligated funds from the disaster loan fund to the salary and expense account to administer the disaster loan program, and for other purposes. CBO estimates that $70 million, or the 1985 appropriated level, would also be transferred in 1986, and approximately $73 million in 1987 and $76 million in 1988 would be available for this purpose. The transfer of unobligated balances does not affect budget authority but does increase outlays in each of the fiscal years 1986 through 1990.
[2] No appropriations are authorized for this program; application fees and other income has historically been sufficient to meet the expenses of the program.

For purposes of this estimate, it is assumed that the entire amounts authorized in S. 408 will be appropriated prior to the beginning of each fiscal year.

SBA makes an annual interest payment to the Treasury based on its outstanding disbursements for direct loans. The payment to the Treasury reflects disbursements from the business and disaster loan programs in 1986, 1987, and 1988. Because the interest payment represents an outlay to SBA but a receipt to the Treasury, it has no net budget impact. In addition, interest is paid to the Treasury on the direct loans made by the FFB. The figures in the cost estimate tables for function 900 are the estimated Treasury receipts from SBA and the FFB related to loans authorized by S. 408.

Business programs

Outlays for SBA direct and immediate participation loans are calculated by assuming that these loans are disbursed over a two-year period based on SBA historical disbursement rates. The repayment schedule is derived from amortization tables. Because the bill would increase the guarantee fee charged on 7(a) loans from 1 percent to 2 percent, it is estimated that SBA revenue would increase by approximately $10 million in 1986, $19 million in 1987, $20 million in 1988, and $10 million in 1989, assuming the 7(a) guarantee levels authorized in the bill.9

The estimated on-budget authorization level for function 370 in 1989 and 1990 ($339 million and $389 million, respectively) reflects estimated net additional resources required to fund remaining expenses, primarily defaults on loan guarantees, resulting from the authorizations provided in the bill. SBA purchase of guarantee loans that have defaulted is assumed to occur in the first through sixth years after disbursement by the bank, at rates consistent with historical experience. Beginning in 1986, the estimated gross repurchase rate for 7(a) guaranteed loans was adjusted downward to reflect a reduction (from 90 percent to 80 percent) in maximum SBA exposure for these loans.

Outlays for salaries and expenses and the surety bond program are assumed to follow historical patterns. Estimated outlays in the pollution control program are estimated at zero, assuming that fee collections will offset program expenses, primarily bond defaults.

The bill would authorize $700 million in 1986, increasing to $761 million in 1988, for investment and development company loan guarantees that are financed by the off-budget Federal Financing Bank (FFB). These FFB loans are made to small business investment and development companies to provide equity capital for small businesses. The off-budget authorization levels in the table below reflect gross disbursements of such loans, while the estimated outlays reflect estimated disbursements less repayments.

A summary of the budget impact of the business programs authorized by S. 408 is shown below.

BUSINESS PROGRAMS

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
On-budget: Function 370—					
Authorization level:					
Specified	555	597	620		
Estimated				339	389
Total authorization	555	597	620	339	389
Estimated outlays	329	442	588	404	369
Function 900: Treasury interest receipts		−30	−86	−148	−165
Off-budget: Function 370—					
Estimated authorization level	282	506	527	221	
Estimated outlays	282	483	467	−98	−91
Total on- and off-budget:					
Authorization level:					
Specified	555	597	774		
Estimated	282	476	441	412	224

BUSINESS PROGRAMS—Continued

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Total authorization	837	1,073	1,215	412	224
Estimated outlays	611	895	969	158	113

Disaster loans

The SBA disaster loan fund provides funding for physical and non-physical disasters. Under current law, new physical disaster loan obligations are capped at $500 million for 1986, while annual new non-physical disaster loan obligations are capped at $100 million. The baseline for this program in subsequent years is estimated using loan demand for an average disaster year, which is calculated using 15 years of historical data adjusted for inflation.

The table below shows the estimated budget impact of the disaster loan provisions of S. 408, including Treasury interest receipts. These figures have been estimated relative to a program level in which no new disaster loan obligations are authorized after fiscal year 1986. Under S. 408, only physical disaster lending would be authorized; the non-physical loan program would be discontinued. As a result, the 1986 loan level would be $500 million, $100 million less than previously authorized. Estimated loan levels in 1987 and 1988 are $960 million and $1,001 million, respectively. It is estimated that no appropriations would be required in 1986 and 1987 to meet these loan levels, because sufficient unobligated balances would be available to the fund.

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Disaster loans:					
Estimated authorization level			114		
Estimated outlays	−59	563	717	−11	−187
Treasury interest receipts			−2	−18	−34

Summary

The following table shows the total estimated budget authority and outlays for SBA programs under S. 408, including outlays resulting from prior years' obligations and Treasury receipts related to SBA loans and guarantees. These figures include both on-budget and off-budget accounts. A comparison with the CBO baseline is also provided.

[By fiscal years, in millions of dollars]

	1986	1987	1988
CBO baseline:			
Estimated budget authority	935	980	1,482
Estimated outlays	720	1,055	1,173

	1986	1987	1988
S. 408, as reported:			
Estimated budget authority	697	760	911
Estimated outlays	495	748	876
Difference:			
Estimated budget authority	−238	−220	−571
Estimated outlays	−225	−307	−297

6. Estimated cost to State and local governments: S. 408 would authorize SBA to issue guarantees of $450 million in 1986, $470 million in 1987, and $489 million in 1988 on debentures issued by qualified state or local development companies. These SBA guaranteed debentures are then sold to the FFB for financing up to 50 percent of the total project cost.

7. Estimate comparison: None.

8. Previous CBO estimate: None.

9. Estimate prepared by: Mary Maginniss and Paul DiNardo.

10. Estimate approved by: C.G. Nuckols (for James L. Blum, Assistant Director for Budget Analysis).

D. Changes in Existing Law

In compliance with rule XXVI (12) of the Standing Rules of the Senate, changes in existing law made by the statutory provisions of the bill are as follows (existing law proposed to be omitted is enclosed in black brackets, new material is printed in italic, and existing law in which no change is proposed is shown in roman):

Small Business Act

* * * * * * *

Sec. 7 * * *

(a)(2) In agreements to participate in loans on a deferred basis under this subsection, such participation by the Adminstration, except as provided in paragraph (6), shall be:

(A) not less than [90] *80* per centum of the balance of the financing outstanding at the time of disbursement if such financing does not exceed $100,000; and

(B) subject to the limitation in paragraph (3)—

(i) not less than 70 per centum nor more than [90] *80* per centum of the financing outstanding at the time of disbursement if such financing exceeds $100,000 but is less than $714,285, and

(ii) less than 70 per centum of the financing outstanding at the time of disbursement if such financing exceeds $714,285;

Provided, That the Administration shall not use the per centum of guarantee requested as a criterion to establish priorities in approving guarantee requests nor shall the Adminstration reduce the per centum guaranteed to less than [90] *80* per centum pursuant to subparagraph (B) other than by a determination made on each application.

* * * * * * *

(16) The Administration shall collect a guarantee fee equal to 2 percent of the amount of the deferred participation share of any loan under this subsection other than a loan repayable in one year or less or a loan under paragraph (13). The fee shall be payable by the participating lending institution and may be charged to the borrower.

(b)* * *

[(3) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary or appropriate to assist any small business concern in effecting continuation of, additions to, alterations in, or reestablishment in the same or a new location of its plant, facilities, or methods of operation made necessary by direct action of the Federal Government or as a consequence of Federal Government action or to meet requirements or restrictions imposed on such concern under any Federal law heretofore or hereafter enacted or any State law enacted in conformity therewith, or any regulation or order of a duly authorized Federal, State, regional, or local agency issued in conformity with such Federal law, if the Administration determines that such concern is likely to suffer substantial economic injury or be unable to market a product without assistance under this paragraph: *Provided,* That the maximum loan made to any small business concern under this paragraph shall not exceed $500,000 and the amount thereof shall be based solely on a determination made on each application: *Provided further,* That no loan or guarantee shall be extended unless the Administration finds that the applicant is unable to obtain credit elsewhere. For the purposes of this paragraph, the impact of the 1983 Payment-in-Kind Land Diversion program, or any successor Payment-in-Kind program with a similar impact on the small business community, shall be deemed to be a consequence of Federal Government action; and

[(4) to make such disaster loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary to assist, or refinance all or part of the existing indebtedness (specifically including any direct loans under section 7(a) of this Act which were made to small businesses affected by currency fluctuations and exchange freezes), of any small business concern located in an area of economic dislocation that is the result of the drastic fluctuation in the value of the currency of a country contiguous to the United States and adjustments in the regulation of its monetary system if such concern is unable to obtain credit elsewhere. The Governor of a State may certify to the Administration (A) that small business concerns within the State have suffered substantial economic injury as a result of such economic dislocation, and (B) that such concerns are in need of financial assistance which is not available on reasonable terms. Such economic dislocations must be of such magnitude that without the benefit of disaster loans provided hereunder a significant number of otherwise financially sound

small businesses in the impacted regions or business sectors would either become insolvent or be unable to return quickly to their former level of operation. No disaster loan made hereunder shall exceed $100,000, nor shall the proceeds thereof be used to reduce the exposure of any other lender. The Administration may permit deferral of payment of principal and interest for one year on loans made hereunder.]

* * * * * * *

SEC. 20(a)*(1)* For fiscal years 1981, 1982, 1983 and 1984 there are hereby authorized to be appropriated such sums as may be necessary and appropriate to carry out the provisions and purposes of this Act other than those for which appropriations are specifically authorized. For fiscal year 1985 and every year thereafter, there are hereby authorized to be appropriated such sums as may be necessary and appropriate to carry out the provisions and purposes of this Act other than those for which appropriations are specifically authorized. All appropriations whether specifically or generally authorized shall remain available until expended.

(2) Notwithstanding any other provision of law, the Administration shall enter into commitments to guarantee loans, debentures, payment of rentals, or other amounts due under qualified contracts and other types of financial assistance and enter into commitments to guarantee sureties against loss pursuant to programs under this Act and the Small Business Investment Act of 1958, in the full amounts provided by law subject only to (A) the availability of qualified applications for such guarantees, and (B) limitations contained in appropriations Acts. Nothing in this paragraph authorizes the Administration to reduce or limit its authority to enter commitments for such guarantees to qualified applicants.

* * * * * * *

(t) For each of fiscal years 1985 and 1986, for the programs authorized by sections 7(b)(1) and 7(b)(2) the Administration is authorized to make $500,000,000 in direct loans and[for each of such years] *for fiscal year 1985* for the programs authorized by sections 7(b)(3) and 7(b)(4) the Administration also is authorized to make $100,000,000 in direct loans.

(u) The following program levels are authorized for fiscal year 1986:

(1) For the programs authorized by section 7(a) of this Act, the Administration is authorized to make $45,000,000 in direct and immediate participation loans; and of such sums, the Administration is authorized to make $20,000,000 in loans as provided in paragraph (10), and $25,000,000 in loans to be made only to disabled veterans, and veterans of the Vietnam era, as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97-72.

(2) For the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $3,180,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $60,000,000 in loans as

provided in paragraph (11), $15,000,000 in loans as provided in paragraph (12), and $450,000,000 in loans as provided in paragraph (13) and guarantees and debentures as provided in section 503.

(3) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $41,000,000 in direct purchases of debentures and preferred securities and to make $250,000,000 in guarantees of debentures.

(4) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $1,115,000,000.

(5) For the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $150,000,000.

(6) For the programs authorized by sections 7(b)(1) and 7(b)(2) of this Act there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for administrative expenses.

(v) There are authorized to be appropriated to the Administration for fiscal year 1986, $555,000,000. Of such sum $333,000,000 shall be available for carrying out the programs referred to in subsection (u), paragraphs (1) through (3); $12,000,000 shall be available for the purpose of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $210,000,000 shall be available for salaries and expenses of the Administration.

(w) The following program levels are authorized for fiscal year 1987:

(1) For the programs authorized by section 7(a) of this Act, the Administration is authorized to make $47,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $21,000,000 in loans as provided in paragraph (10), and $26,000,000 in loans to be made only to disabled veterans, and veterans of the Vietnam era, as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97–72.

(2) For the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $3,320,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $63,000,000 in loans as provided in paragraph (11), $16,000,000 in loans as provided in paragraph (12), and $470,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503.

(3) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $43,000,000 in direct purchases of debentures and preferred securities and to make $261,000,000 in guarantees of debentures.

(4) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $1,164,000,000.

(5) For the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $157,000,000.

(6) There are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

(x) There are authorized to be appropriated to the Administration for fiscal year 1987, $597,300,000. Of such sum $368,000,000 shall be available for carrying out the programs referred to in subsection (w), paragraphs (1) through (3); $15,500,000 shall be available for the purpose of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $213,800,000 shall be available for salaries and expenses of the Administration.".

(y) The following program levels are authorized for fiscal year 1988:

(1) For the programs authorized in section 7(a) of this Act, the Administration is authorized to make $49,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $22,000,000 in loans as provided in paragraph (10), and $27,000,000 in loans to be made only to disabled veterans, and veterans of the Vietnam era, as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of public Law 97-72.

(2) For the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $3,458,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $6,000,000 in loans as provided in paragraph (10), $65,000,000 in loans as provided in paragraph (11), $16,000,000 in loans as provided in paragraph (12), and $489,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503.

(3) For the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $45,000,000 in direct purchases of debentures and preferred securities and to make $272,000,000 in guarantees of debentures.

(4) For the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $1,213,000,000.

(5) For the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Admistration is authorized to enter into guarantees not to exceed $163,000,000.

(6) There are hereby authorized to be appropriate such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of section 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such

sums as may be necessary and appropriate for such administrative expenses.

(z) There are authorized to be appropriated to the Administration for fiscal year 1988, $619,800,000. Of such sum $387,000,000 shall be available for carrying out the programs referred to in subsection (y), paragraphs (1) through (3); $14,500,000 shall be available for the purpose of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $218,300,000 shall be available for salaries and expenses of the Administration.

MINORITY VIEWS OF SENATORS BOSCHWITZ, GORTON, NICKLES, AND TRIBLE

We believe that the Small Business Committee must take action in full recognition of the unprecedented magnitude of budget deficits that are projected in the next few years. Unless the Congress has the determination to change the Government's spending habits, budget deficits are projected to rise to nearly $250 Billion each year. Without substantial reductions in the deficit, the Nation's economic recovery cannot continue or expand. The Senate Budget Committee recognized the threat of deficits by recently reporting a Budget Resolution that recommends spending levels which achieve substantial reductions in the deficit. To implement those reductions requires difficult choices and decisions.

No small business can survive when it spends more than it takes in. When that happens, the small business cannot continue business as usual—it has to cut its overhead. That is what the Budget Resolution requires the Government to do—cut its overhead. Just as a small business cannot overlook any part of its spending, the Government must carefully scrutinize all of its agencies and programs to achieve reductions in the deficit from all possible sources. To effectively achieve those necessary reductions, no program—including small business programs—can, or should, be exempt.

In general terms, S. 408 makes two statements: first, the Small Business Administration should not be abolished; and second, the Small Business Administration should provide financial and management assistance to small businesses. We do not disagree with the first; we only disagree with the extent of the second.

On the surface, S. 408 appears to achieve significant savings in its programs. On closer examination, however, it is clear that those savings are made through eliminating programs the Senate has agreed to eliminate in the past—direct loans and nonphysical disaster loans. Virtually all other programs are retained and funded at current levels. In effect, S. 408 allows the Small Business Administration to continue business as usual.

If we, as members of the Small Business Committee, are unwilling to make the difficult decisions on programs under our jurisdiction, we cannot expect our colleagues to exercise restraint in their committees. While we agree with the savings recommended in S. 408, we believe that further, substantial savings are necessary.

The Government has a statutory mandate to aid, counsel, assist and protect small business. We believe that this mandate can be effectively achieved with additional savings in the Small Business Administration's programs. But, most importantly, we believe that reducing the deficit is the best and most effective assistance the Congress can provide small business. We are committed to that goal.

APPENDIX I—SBA DISASTER LOANS APPROVED FISCAL YEARS 1983–84

State and type of disaster	Number of loans	Total amount	SBA amount
Alabama:			
Economic injury disaster	1	$7,500	$7,500
Floods	147	1,733,500	1,733,500
FMHA-declared	1	35,000	35,000
Tornadoes	15	113,800	113,800
Total for Alabama	164	1,889,800	1,889,800
Arizona:			
Earthquake	1	150,000	150,000
Economic injury disaster	56	1,749,200	1,749,200
Floods	596	13,166,100	13,166,100
Total for Arizona	653	15,065,300	15,065,300
Arkansas:			
Economic injury disaster	2	33,800	33,800
Floods	321	6,669,100	6,669,100
FMHA-declared	29	4,138,200	4,138,200
Tornadoes	20	2,071,600	2,071,600
Total for Arkansas	372	12,912,700	12,912,700
California:			
Earthquake	593	12,679,100	12,679,100
Economic injury disaster	124	6,021,300	6,021,300
Fires	70	1,908,300	1,908,300
Floods	4,446	68,314,400	68,314,400
FMHA-declared	3	611,800	611,800
Freezes	1	35,700	35,700
Total for California	5,237	89,570,600	89,570,600
Colorado:			
Economic injury disaster	20	658,500	658,500
Floods	33	1,506,000	1,506,000
FMHA-declared	3	204,500	204,500
Total for Colorado	56	2,369,000	2,369,000
Connecticut:			
Economic injury disaster	4	179,500	179,500
Fires	1	76,800	76,800
Floods	347	7,684,000	7,684,000
Total for Connecticut	352	7,940,300	7,940,300
Delaware:			
Floods	1	7,200	7,200
FMHA-declared	1	99,000	99,000
Total for Delaware	2	106,200	106,200
Florida:			
Economic injury disaster	45	3,273,400	3,273,400
Floods	27	276,800	276,800
FMHA-declared	6	585,500	585,500
Freezes	174	13,430,000	13,430,000
Total for Florida	252	17,565,700	17,565,700
Georgia:			
Fires	1	34,700	34,700
Floods	30	1,004,100	1,004,100
FMHA-declared	5	407,300	407,300

APPENDIX I—SBA DISASTER LOANS APPROVED FISCAL YEARS 1983–84—Continued

State and type of disaster	Number of loans	Total amount	SBA amount
Freezes	1	71,900	71,900
Total for Georgia	37	1,518,000	1,518,000
Guam: Storms	1	3,000	3,000
Total for Guam	1	3,000	3,000
Hawaii:			
Earthquake	74	1,342,700	1,342,700
Economic Injury disaster	23	1,241,600	1,241,600
Hurricanes	548	10,913,900	10,913,900
Total for Hawaii	645	13,498,200	13,498,200
Idaho:			
Earthquake	52	914,000	914,000
Floods	31	312,100	312,100
Total for Idaho	83	1,226,100	1,226,100
Illinois:			
Economic injury disaster	5	545,400	545,400
Floods	429	5,232,919	5,232,919
FMHA-declared	31	4,565,000	4,565,000
Tornadoes	9	251,500	251,500
Total for Illinois	474	10,594,819	10,594,819
Indiana:			
Floods	9	175,800	175,800
FMHA-declared	21	2,867,200	2,867,200
Total for Indiana	30	3,043,000	3,043,000
Iowa:			
Floods	1	4,000	4,000
FMHA-declared	213	12,783,400	12,783,400
Freezes	1	7,600	7,600
Landslides	2	41,500	41,500
Tornadoes	9	221,400	221,400
Total for Iowa	226	13,057,900	13,057,900
Kansas:			
Floods	4	15,600	15,600
FMHA-declared	30	3,957,500	3,957,500
Hurricanes	1	100,000	100,000
Tornadoes	95	1,531,500	1,531,500
Total for Kansas	130	5,604,600	5,604,600
Kentucky:			
Floods	583	8,691,700	8,691,700
FMHA-declared	41	4,704,800	4,704,800
Total for Kentucky	624	13,396,500	13,396,500
Louisiana:			
Economic injury disaster	3	209,000	209,000
Explosions	1	2,400	2,400
Fires	1	5,500	5,500
Floods	1,855	19,266,400	19,266,400
FMHA-declared	6	393,800	393,800
Tornadoes	6	404,000	404,000

APPENDIX I—SBA DISASTER LOANS APPROVED FISCAL YEARS 1983–84—Continued

State and type of disaster	Number of loans	Total amount	SBA amount
Total for Louisiana	1,872	20,281,100	20,281,100
Maryland: Economic injury disaster	1	20,000	18,000
Total for Maryland	1	20,000	18,000
Massachusetts:			
Fires	7	1,439,900	1,439,900
Floods	43	946,200	946,200
Total for Massachusetts	50	2,386,100	2,386,100
Michigan:			
Floods	4	50,500	50,500
FMHA-declared	1	201,000	201,000
Total for Michigan	5	251,500	251,500
Minnesota:			
FMHA-declared	23	1,383,500	1,383,500
Tornadoes	13	176,200	176,200
Total for Minnesota	36	1,559,700	1,559,700
Mississippi:			
Economic injury disaster	6	147,200	147,200
Floods	627	8,039,500	8,039,500
FMHA-declared	8	913,300	913,300
Tornadoes	66	1,605,200	1,605,200
Total for Mississippi	707	10,705,200	10,705,200
Missouri:			
Economic injury disaster	8	545,000	545,000
Floods	1,604	26,205,300	26,205,300
FMHA-declared	113	11,681,100	11,681,100
Freezes	3	62,500	62,500
Hurricanes	1	10,000	10,000
Tornadoes	41	794,000	794,000
Total for Missouri	1,770	39,297,900	39,297,900
Montana: Economic injury disaster	7	610,800	610,800
Total for Montana	7	610,800	610,800
Nebraska:			
Floods	89	968,500	968,500
FMHA-declared	11	1,194,900	1,194,900
Tornadoes	3	53,900	53,900
Total for Nebraska	103	2,217,300	2,217,300
Nevada:			
Economic injury disaster	4	42,600	42,600
Fires	4	148,300	148,300
Floods	18	219,200	219,200
Total for Nevada	26	410,100	410,100
New Hampshire:			
Floods	18	190,500	190,500
Total for New Hampshire	18	190,500	190,500
New Jersey:			
Fires	2	14,300	14,300

APPENDIX I—SBA DISASTER LOANS APPROVED FISCAL YEARS 1983–84—Continued

State and type of disaster	Number of loans	Total amount	SBA amount
Floods	2,026	32,557,888	32,557,888
FMHA-declared	2	36,200	36,200
Total for New Jersey	2,030	32,608,388	32,608,388
New Mexico:			
Economic injury disaster	8	1,041,500	1,041,500
FMHA-declared	4	138,000	138,000
Natural	1	498,200	498,200
Total for New Mexico	13	1,677,700	1,677,700
New York:			
Economic injury disaster	2	124,300	124,300
Fires	45	456,600	456,600
Floods	1,591	14,812,700	14,812,700
Tornadoes	38	651,200	651,200
Total for New York	1,676	16,044,800	16,044,800
North Carolina:			
FMHA-declared	19	2,462,000	2,462,000
Tornadoes	232	4,469,600	4,469,000
Total for North Carolina	251	6,931,600	6,931,600
North Dakota: FMHA-declared	1	60,000	60,000
Total for North Dakota	1	60,000	60,000
Ohio:			
Floods	4	61,800	61,800
FMHA-declared	12	1,650,300	1,650,300
Freezes	1	19,00	19,000
Tornadoes	6	45,100	45,100
Total for Ohio	23	1,776,200	1,776,200
Oklahoma:			
Economic injury disaster	5	415,700	415,700
Floods	1,565	22,488,200	22,488,200
FMHA-declared	2	509,700	509,700
Freezes	1	5,000	5,000
Hurricanes	2	34,800	34,800
Tornadoes	145	2,736,800	2,736,800
Total for Oklahoma	1,720	26,190,200	26,190,200
Oregon:			
Economic injury disaster	4	48,500	48,500
Floods	13	354,700	354,700
Total for Oregon	17	403,200	403,200
Pennsylvania:			
Economic injury disaster	1	34,099	34,099
Floods	179	2,880,311	2,880,311
FMHA-declared	1	300,000	300,000
Tornadoes	12	71,800	71,800
Total for Pennsylvania	193	3,286,210	3,286,210
Puerto Rico: Floods	76	310,500	310,500
Total for Puerto Rico	76	310,500	310,500
Rhode Island:			
Economic injury disaster	3	191,600	191,600

APPENDIX I—SBA DISASTER LOANS APPROVED FISCAL YEARS 1983–84—Continued

State and type of disaster	Number of loans	Total amount	SBA amount
Floods	4	123,500	123,500
Total for Rhode Island	7	315,100	315,100
South Carolina:			
Economic injury disaster	1	7,800	7,800
FMHA-declared	11	1,293,900	1,293,900
Tornadoes	180	2,861,900	2,861,900
Total for South Carolina	192	4,163,600	4,163,600
South Dakota:			
Economic injury disaster	1	53,200	53,200
FMHA-declared	16	1,247,100	1,247,100
Total for South Dakota	17	1,300,300	1,300,300
State not on file: Floods	1	26,000	26,000
Total for State not on file	1	26,000	26,000
Tennessee:			
Fires	1	4,800	4,800
Floods	168	2,799,703	2,799,703
FMHA-declared	21	2,315,500	2,315,500
Tornadoes	1	15,000	15,000
Total for Tennessee	191	5,135,003	5,135,003
Texas:			
Earthquake	1	10,000	10,000
Economic injury disaster	466	35,071,000	35,071,000
Fires	4	45,900	45,900
Floods	948	6,658,600	6,658,600
FMHA-declared	56	6,088,200	6,088,200
Freezes	872	25,551,100	25,551,100
Hurricanes	2,776	35,877,900	35,877,900
Tornadoes	12	385,200	385,200
Total for Texas	5,135	109,687,900	109,687,900
Utah:			
Economic injury disaster	1	18,000	18,000
EIDL	18	713,100	713,100
Floods	206	4,196,200	4,196,200
FMHA-declared	1	160,000	160,000
Tornadoes	1	75,700	75,700
Total for Utah	227	5,163,000	5,163,000
Vermont: Floods	62	701,300	701,300
Total for Vermont	62	701,300	701,300
Virgin Islands: Floods	149	1,277,200	1,277,200
Total for Virgin Islands	149	1,277,200	1,277,200
Virginia:			
Floods	57	505,300	505,300
FMHA-declared	4	248,000	248,000
Tornadoes	5	114,300	114,300
Total for Virginia	66	867,600	867,600
Washington:			
Floods	148	2,544,300	2,544,300

APPENDIX I—SBA DISASTER LOANS APPROVED FISCAL YEARS 1983–84—Continued

State and type of disaster	Number of loans	Total amount	SBA amount
Volcanic	1	201,000	201,000
Total for Washington	149	2,745,300	2,745,300
West Virginia:			
Economic injury disaster	1	10,500	10,500
Floods	160	2,274,700	2,274,700
Freezes	1	12,300	12,300
Tornadoes	1	24,600	24,600
Total for West Virginia	163	2,322,100	2,322,100
Wisconsin:			
Floods	1	2,100	2,100
FMHA-declared	2	375,000	375,000
Tornadoes	50	2,051,500	2,051,500
Total for Wisconsin	53	2,428,600	2,428,600
Wyoming:			
Floods	3	18,700	18,700
Storms	17	2,329,700	2,329,700
Total for Wyoming	20	2,348,400	2,348,400
Total loans	26,365	515,062,120	515,060,120

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Senate

CORRECTION IN REPORT ACCOMPANYING S. 408, SMALL BUSINESS ADMINISTRATION PROGRAM AUTHORIZATIONS FOR FISCAL YEARS 1986, 1987, AND 1988

● Mr. WEICKER. Mr. President, during committee consideration of S. 408, the committee adopted two amendments making certain programmatic changes in SBA's Loan Guarantee Program. The proposals included an increase in the borrower's fee in the 7(a) Guaranteed Lending Program from 1 to 2 percent for loans which exceed 1 year, and a reduction from 90 percent to 80 percent of the maximum SBA guaranteed portion of these loans.

These changes resulted in budget authority and outlay savings in SBA's Business Loan and Investment Fund. S. 408, as reported, failed to reduce the authorization levels to reflect these savings. When the Senate considers S. 408, I intend to offer technical and conforming amendments to reflect the committee actions of March 26, 1985. Specifically, the amendment would reduce the budget authority in the business loan and investment fund as follows:

[In millions of dollars]

Fiscal year:	
1986	322
1987	343
1988	346

I have asked the Congressional Budget Office to reestimate S. 408 with the inclusion of these technical amendments. Furthermore, CBO has recalculated the savings derived from reducing the maximum guarantee fee and made a minor accounting error in their cost estimate printed in the committee's report. With the inclusion of these technical amendments and CBO's recalculations, the total savings achieved by S. 408 over a 3-year period would be $14 million lower in budget authority and $14 million lower in outlays, than previously reported. The total savings achieved by S. 408, with the technical amendment, is $1.1 billion in budget authority and $851 million in outlays over the next 3 fiscal years.

TOTAL SAVINGS FROM CBO'S CURRENT POLICY BASELINE

[in millions of dollars]

	1986	1987	1988	Total
Budget authority	256	246	598	1,100
Outlays	233	314	304	851

Mr. President, I ask that the revised charts that appear on pages 4 and 5 of the committee report be printed at this point in the RECORD, along with the revised CBO cost estimate letter which appears on pages 51 through 56.

The material follows:

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill Number: S. 408.

2. Bill Title: A bill to amend the Small Business Act to provide program levels, salary and expense levels, and authorizations for the Small Business Administration's programs for fiscal years 1986, 1987, and 1988, and for other purposes.

3. Bill Status: As reported by the Senate Committee on Small Business, March 26, 1985, and reflecting proposed technical amendments.

4. Bill Purpose: S. 408 would establish program levels for fiscal years 1986 through 1988 for the business programs administered by the Small Business Administration (SBA). It would also authorize appropriations for administering and funding these activities.

Beginning in 1986, this legislation would reduce from 90 percent to 80 percent the maximum amount of an SBA guarantee for general business loans. It would also increase the guarantee fee for these loans from 1 percent to 2 percent. Section 5 would require that SBA commit all available funds for guaranteed loans if sufficient qualified borrowers apply.

S. 408 would authorize the appropriation of such sums as may be necessary to operate the disaster loan program for fiscal years 1987 and 1988. It would also eliminate nonphysical disaster loans after fiscal year 1985. These loans are now capped at $100 million in new annual obligations through fiscal year 1986.

5. Estimated cost to the Federal Government: The following table summarizes the total on- and off-budget impact of S. 408, rel-

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ative to spending levels if no legislation were enacted.

TOTAL ON- AND OFF-BUDGET

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Authorization level:					
Specified	544	572	579		
Estimated	282	476	553	394	190
Total authorization	826	1,048	1,132	394	190
Estimated outlays	552	1,458	1,684	129	−108

The basis of estimate provides further detail on the budget impact of this bill, and compares spending levels under S. 408 with the CBO baseline projections.

This bill would authorize SBA loan guarantees of $3.4 billion in 1986, $3.6 billion in 1987, and $3.7 billion in 1988. These guarantees represent contingent liabilities of the federal government.

For many government activities, the costs and outlays are identical. For loan programs, however, the costs differ from outlays, and include administrative expenses and loan defaults, offset by fees and interest income. The costs of S. 408 are summarized separately below:

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Estimated costs	309	355	469	605	659

Basis of estimate: S. 408 would authorize the following program levels for the loan programs administered by the SBA:

PROGRAM LEVELS

[By fiscal years, in millions of dollars]

Programs	Direct loans			Guaranteed loans		
	1986	1987	1988	1986	1987	1988
7(a) general business				2,650	2,766	2,882
Handicapped	20	21	22	5	5	6
Economic opportunity				60	63	65
Energy				15	16	16
Development company				450	470	489
Investment company	41	43	45	250	261	272
Veterans	25	26	27			
Total	86	90	94	3,430	3,580	3,730
Surety bond				1,115	1,164	1,213
Pollution control				150	157	163
Disaster	[1] 500	[2] 960	[2] 1,001			

[1] The disaster loan program is already authorized for 1986 for 1986 at a level of $600 million. This bill would eliminate non-physical-disaster loans, which account for $100 million of the authorization.

[2] Estimate based on historical data.

The authorization levels shown in this estimate include amounts specifically authorized in the bill, estimated payments for loan guarantee defaults, estimated disaster loan appropriations, and estimated Federal Financing Bank (FFB) loans made under investment and development loan guarantees. The specific authorizations are summarized in the following table.

AUTHORIZATION LEVELS

[By fiscal years, in millions of dollars]

	1986	1987	1988
Salaries and expenses[1]	210	214	218
Business loans and investments	322	343	346
Pollution control b[2]			
Surety bond guarantee	12	16	15
Total	544	572	579

[1] The bill also authorizes the transfer of unobligated funds from the disaster loan fund to the salary and expense account to administer the disaster loan program, and for other purposes. CBO estimates that $70 million, or the 1985 appropriated level, would also be transferred in 1986, and approximately $73 million in 1987 and $76 million in 1988 would be available for this purpose. The transfer of unobligated balances does not affect budget authority but does increase outlays in each of the fiscal years 1986 through 1990.

[2] No appropriations are authorized for this program; application fees and other income has historically been sufficient to meet the expenses of the program.

Note: Details may not add to the totals due to rounding.

For purposes of this estimate, it is assumed that the entire amounts authorized in S. 408 will be appropriated to the beginning of each fiscal year.

SBA makes an annual interest payment to the Treasury based on its outstanding disbursements for direct loans. The payment to the Treasury reflects disbursements from the business and disaster loan program in 1986, 1987, and 1988. Because the interest payment represents an outlay to SBA but a receipt to the Treasury, it has no net budget impact. In addition, interest is paid to the Treasury on the direct loans made by the FFB. The figures in the cost estimate tables for function 900 are the estimated Treasury receipts from SBA and the FFB related to loans authorized by S. 408.

Business programs: Outlays for SBA direct and immediate participation loans are calculated by assuming that these loans are disbursed over a two-year period based on SBA historical disbursement rates. The repayment schedule is derived from amortization tables. Because the bill would increase the guarantee fee charged on 7(a) loans from 1 percent to 2 percent, it is estimated that SBA revenue would increase by approximately $10 million in 1986, $19 million in 1987, $20 million in 1988, and $10 million in 1989, assuming the 7(a) guarantee levels authorized in the bill.

The estimated on-budget authorization level for function 370 in 1989 and 1990 ($339 million and $389 million, respectively) reflects estimated net additional resources required to fund remaining expenses, primarily defaults on loan guarantees, resulting from the authorizations provided in the bill. SBA purchase of guarantee loans that have defaulted is assumed to occur in the first through sixth years after disbursement by the bank, at rates consistent with historical experience. Beginning in 1986, the estimated gross repurchase rate for 7(a) guaranteed loans was adjusted downward to reflect a reduction (from 90 percent to 80 percent) in maximum SBA exposure for these loans.

Outlays for salaries and expenses and the surety bond program are assumed to follow historical patterns. Estimated outlays in the pollution control program are estimated at zero, assuming that fee collections will offset program expenses, primarily bond defaults.

The bill would authorize $700 million in 1986, increasing to $761 million in 1988, for investment and development company loan guarantees that are financed by the off-

budget Federal Financing Bank (FFB). These FFB loans are made to small business investment and development companies to provide equity capital for small businesses. The off-budget authorization levels in the table below reflect gross disbursements of such loans, while the estimated outlays reflect estimated disbursements less repayments.

A summary of the budget impact of the business programs authorized by S. 408 is shown below.

BUSINESS PROGRAMS

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
On-budget:					
Function 370:					
Authorization level:					
Specified	544	572	579		
Estimated				339	389
Total Authorization	544	572	579	339	389
Estimated outlays	329	442	588	404	369
Function 900: Treasury interest receipts	−30	−86	−148	−165	
Off-budget:					
Function 370:					
Estimated authorization level	282	506	527	221	
Estimated outlays	282	482	467	−98	−91
Total on-and off-budget:					
Authorization level:					
Specified	544	572	579		
Estimated	282	476	441	412	224
Total authorization	826	1,048	1,020	412	224
Estimated outlays	611	895	969	158	113

Disaster loans: The SBA disaster loan fund provides funding for physical and non-physical disasters. Under current law, new physical disaster loan obligations are capped at $500 million for 1986, while annual new non-physical disaster loan obligations are capped at $100 million. The baseline for this program in subsequent years is estimated using loan demand for an average disaster year, which is calculated using 15 years of historical data adjusted for inflation.

The table below shows the estimated budget impact of the disaster loan provisions of S. 408, including Treasury receipts. These figures have been estimated relative to a program level in which no new disaster loan obligations are authorized after fiscal year 1986. Under S. 408, only physical disaster lending would be authorized; the non-physical loan program would be discontinued. As a result, the 1986 loan level would be $500 million, $100 million less than previously authorized. Estimated loan levels in 1987 and 1988 are $960 million and $1,001 million, respectively. It is estimated that no appropriations would be required in 1986 and 1987 to meet these loan levels, because sufficient unobligated balances would be available to the fund.

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Disaster loans:					
Estimated authorization level			114		
Estimated outlays	−59	563	717	−11	−187
Treasury interest Receipts			−2	−18	−34

Summary: The following table shows the total estimated budget authority and outlays for SBA programs under S. 408, including outlays resulting from prior years' obligations and Treasury receipts related to SBA loans and guarantees. These figures include both on-budget and off-budget accounts. A comparison with the CBO baseline is also provided.

[By fiscal years, in millions of dollars]

	1986	1987	1988
CBO baseline:			
Estimated budget authority	935	980	1,482
Estimated outlays	720	1,055	1,173
S. 408, as reported with proposed technical amendments:			
Estimated budget authority	679	734	884
Estimated outlays	487	741	869
Difference:			
Estimated budget authority	−256	−246	−598
Estimated outlays	−233	−314	−304

6. Estimated cost to State and local governments: S. 408 would authorize SBA to issue guarantees of $450 million in 1986, $470 million in 1987, and $489 million in 1988 on debentures issued by qualified state or local development companies. These SBA guaranteed debentures are then sold to the FFB for financing up to 50 percent of the total project cost.

7. Estimated comparison: None.

8. Previous CBO estimate: On March 29, 1985, CBO prepared a cost estimate for S. 408, as ordered reported by the Senate Committee on Small Business, March 26, 1985. This cost estimated differs from the earlier one in that it reflects proposed technical amendments that would reduce the authorization level for the SBA programs in 1986, 1987, and 1988.

9. Estimate prepared by: Mary Maginniss and Paul DiNardo.

10. Estimate approved by: James L. Blum, Assistant Director for Budget Analysis.●

CHARTS

(PREPARED BY CBO TO REPLACE THOSE THAT APPEARED ON PAGES 4 & 5 OF THE COMMITTEE REPORT)

SMALL BUSINESS ADMINISTRATION BUDGET

[CBO'S current policy baseline]

CBO rest. baseline	1985		1986		1987		1988	
	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay
Salaries and expenses	234	272	243	299	248	322	253	331
Pollution control	0	6	0	4	0	4	0	3
Business loan and investment fund	484	461	523	510	531	526	541	531
Surety bond	9	15	12	14	16	15	15	16
Lease guarantee	0	1	0	1	0	1	0	1
Disaster loan	0	−232	0	−127	0	171	460	276
Interest paid to Treasury	−370	−370	−350	−350	−344	−344	−338	−338
Total, on-budget	357	153	428	351	451	695	931	820
Federal Financing Bank, SBIC	194	103	203	83	212	63	220	43
Federal Financing Bank, 503	291	285	304	296	317	307	331	320
Federal Financing Bank, development	0	−10	0	−10	0	−10	0	−10
Total, off-budget	485	378	507	369	529	360	551	353
Total unified budget	842	531	935	720	980	1,055	1,482	1,173

S. 408 AUTHORIZATIONS

With tech. amendment S. 408 reported	1985		1986		1987		1988	
	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay
Salaries and expenses			210	275	214	290	218	293
Pollution control			0	4	0	4	0	3
Business loan and investment fund			322	382	343	334	346	346
Surety bond			12	14	16	15	15	16
Lease guarantee			0	1	0	1	0	1
Disaster loan			0	−186	0	103	114	213
Interest paid to Treasury			−350	−350	−334	−344	−336	−336
Total, on-budget	0	0	194	140	228	402	357	536
Federal Financing Bank, SBIC			194	74	202	55	211	38
Federal Financing Bank, 503			291	283	304	296	316	305
Federal Financing Bank, development			0	−10	0	−10	0	−10
Total, off-budget	0	0	485	347	506	339	527	333
Total unified budget	0	0	679	487	734	741	884	869

SAVINGS ACHIEVED BY S. 408

[From CBO's current services baseline]

S. 408 (reported with tech.)—CBO baseline	1985		1986		1987		1988	
	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay
Salaries and expenses			−33	−24	−34	−32	−35	−38
Pollution control			0	0	0	0	0	0
Business loan and investment fund			−201	−128	−188	−192	−195	−185
Surety bond			0	0	−1	−1	−1	−1
Lease guarantee			0	0	0	0	0	0
Disaster loan			0	−59	0	−68	−346	−63
Interest paid to Treasury			0	0	0	0	2	2
Total, on-budget			−234	−211	−223	−293	−574	−284
Federal Financing Bank, SBIC			−9	−9	−10	−8	−9	−5
Federal Financing Bank, 503			−13	−13	−13	−13	−15	−15
Federal Financing Bank, development			0	0	0	0	0	0
Total, off-budget			−22	−22	−23	−21	−24	−20
Total savings, S. 408 (with tech. amend)			−256	−233	−246	−314	−598	−304
Savings breakdown								
Increase guar. fee for 7(a) By 1%			−10	−10	−19	−19	−20	−20
Reduce max. guar. for 7(a) to 80%			−1	−1	−6	−6	−21	−21
Total savings from these amendments			−11	−11	−25	−25	−41	−41